KCGS Korea Corporate Governance Service (www.cgs.or.kr)	Press Release
Date of Release	**April 13, 2021 (Tuesday)**

Proxy Review of Q1 2021 Annual General Meetings

Ⅰ. Scope

Korea Corporate Governance Service (KCGS) issued voting recommendations for institutional investors on the proposals tabled to the annual general meetings in the first quarter of 2021 of 362 companies with a 12/31 fiscal year-end. Of the 362 firms, 234 are listed on the KOSPI market, 124 on the KOSDAQ, and the remaining four on the KONEX. The agency reviewed the proposals based on the KCGS Proxy Voting Guidelines updated in January 2021.

Ⅱ. Proxy Review Result

The companies reviewed by KCGS tabled 2,438 proposals in total[1], and the majority (46.5%) of them (1,134) were to elect directors. Of the 2,438 items, the agency recommended negative votes against 392 or 16.1% of them. Among the companies, those that received at least one adverse voting recommendation amounted to 228 or 63%.

The overall ratio of the adverse voting recommendations is more or less the same as that of the previous year (15%). Also, the ratios of negative vote recommendations at the level of each agenda category did not show any significant change, except for the increase in the auditor category from 43.1% to 55.8%.

< 2021 AGM Proxy Review Results >

Category	Total	F/S · Dividends	Amendments to AoI	Governing bodies									Director remuneration cap	Auditor remuneration cap	Other occasional items**
				Board of directors					Auditing body			Sub total			
				Inside	NINE*	Outside	Outside director to serve audit committee	Sub total	Audit committee member	Auditor	Subtotal				
Negative vote recommendation(#)	392	54	35	17	1	54	20	92	21	29	50	142	126	2	33
# of proposals	2,438	379	287	448	60	290	141	939	143	52	195	1,134	361	150	127
2021 negative vote recommendation(%)	16.1	14.2	12.2	3.8	1.7	18.6	14.2	9.8	14.7	55.8	25.6	12.5	34.9	1.3	26.0
2020 negative vote recommendation(%)	15	10.1	10.8	5.6	1.5	15.9		10	13.8	43.1	19.4	12.7	31.4	0.7	31.6

* Non-independent non-executive directors

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

1) limited to management proposals

(Dividends) The companies reviewed by KCGS this proxy season presented 379 proposals for approving financial statements and dividend payouts. The agency issued adverse voting recommendations against 14.2% of them or 54 firms, citing that the payouts are too small. Both the number and percentage of the negative voting recommendations in this category slightly increased compared to last year (35 firms or 10.1%).

The KCGS Proxy Voting Guidelines advise that investors review the size of the profits, financial condition, investment plan, and dividend size of the industry peers, among others, when making decisions on whether their investee companies pay an appropriate level of dividends.

KCGS also recommend voting against the dividend proposals if the dividends are set at the level that may undermine shareholder value considering the nature of the industry, efficiency of capital allocation, volume of free cash flow, (planned) investment activities, and the extent of profit variability.

Meanwhile, some companies raised shareholders' predictability of the dividends by disclosing the specific background of the decision-making as well as the mid-to-long-term payout ratio targets, the total sum of the dividends, and the source of funds.

Shareholders may have doubts over the efficiency of capital allocation if the investee companies consistently pay too small a dividend. Shareholders also need to monitor whether the companies provide a proper rationale for their decision on dividends or have a long-term dividend policy in place.

(Amendments to articles of incorporation) 245 corporations proposed to amend their articles of incorporation in this proxy season. Of these, 35 agenda received an adverse voting recommendation from KCGS on grounds of a potential violation of shareholder rights and corporate value deterioration.

With the amendments to the Commercial Act, the Act on Electronic Registration of Stocks, Bonds, Etc., and the standard articles of incorporation, companies proposing to amend their articles of incorporation increased substantially, compared to last year when 141 companies tried to update their articles of incorporation.

By breakdown, the proposals (20 cases) that have the concern of excessive dilution of shareholder rights accounted for the highest portion out of the total adverse voting recommendations.

KCGS recommended adverse votes against three proposals which shortened the notice period for a board meeting from seven days to one day because the change makes it hard to review the agenda before the meeting. Meanwhile, the agency issued affirmative vote recommendations for six proposals that expanded the board meeting notice period to seven days.

Regarding the issuance of convertible bonds and bonds with a warrant, a proposal tried to allow the conversion of the bonds or the exercise of a warrant from the very next day of the issuance of such bonds, in violation of the regulations on the issuance and disclosure of securities. In the sense that the issuer did not go through a thorough legal review before filing the proposal, investors need to exercise due caution.

(Election of directors) KCGS recommended negative votes against 9.8% of the proposals for electing directors (92 out of 939). The breakdown under this category shows that the ratio of the negative voting recommendations against outside directors stands at 17.2%, slightly higher than that of the previous year (15.9%) but within a similar range.

This proxy season, KCGS witnessed a highly positive change that fewer companies re-nominated an outside director who failed to fulfill the minimum obligation of attending the meetings: the percentage of adverse vote recommendations due to low attendance fell more than half to 12.7% from 30.1% last year.

On the other hand, the negative vote recommendations on the grounds of other reasons, such as damaging corporate value, over-commitment, and administrative/judicial sanctions, rose substantially to 39.2% from 23.3% last year.

With the amendment to the Commercial Act, companies now must elect an outside director who will also be an audit committee member separately from the other directors, and shareholders are restricted to vote on the shares exceeding 3% of their shareholding. As the director elected separately from the other directors has a higher likelihood to face rejection, companies have the incentive to nominate the persons who are less likely to be opposed by shareholders in terms of independence and competence.

The data on the ground supports this view. The percentage of negative vote recommendations against the nominees standing for the separate election is 14.2% when the ratio against the outside directors standing in the general election is 18.6%. It is a testament that companies would have screened the directors standing for a separate election more thoroughly.

< # and % of negative voting recommendations against outside directors by reason > [2)]

Reason	2020		2021	
	# of proposals	Ratio	# of proposals	Ratio
Long consecutive terms*	4	5.5%	5	6.3%
Independence issue (conflicting interests)	30	41.1%	33	41.8%
Low attendance	22	30.1%	10	12.7%
Others	17	23.3%	31	39.2%
Total	73	100.0%	79	100.0%

* When the terms exceed six years including the prospective new term and the years the nominees worked for an affiliate.

(Election of auditors) KCGS issued adverse vote recommendations against 55.8% of the proposals for electing an auditor, the highest of the agenda items opposed by the agency. The percentage is 12.7%p up YOY, again the highest jump of all the agenda categories.

In the last proxy season, independence issues accounted for most of the adverse vote recommendations made by KCGS. This year, the percentage fell from 90.6% to 69.7%, and the ratio of negative voting recommendations due to faithfulness concern rose substantially from 0% to 23.2%.

By reason, long-term service accounted for the highest portion, the same as in the previous year, but the percentage declined from 67.7% to 42.4%. The longest service period observed this year, including the prospective new term, was 15 years, and the auditor nominees opposed by KCGS worked for the position for 9.4 years on average.

Another reason for opposition was independence such as conflicting interests. In most cases, the nominees were related to the corporations having critical interests in the company such as through monetary transactions (4 companies) or had worked in the company or an affiliate before (another 4 companies). There was even a case where a relative of the largest shareholder was nominated as an auditor.

Over-commitment was also an issue in many companies. The percentage of negative vote recommendations against the nominees who have a faithfulness issue due to their concurrent positions increased substantially to 21.2%. In the cases reviewed by KCGS, the candidates nominated as full-time corporate auditors were also working at a law firm (attorney), an accounting firm (partner), or another company. Even worse, a nominee would have worked as a full-time auditor for three different listed companies if elected in the latest annual general meeting. The nominee could not discharge the role of a ‘full-time’ corporate auditor who should attend to day-to-day business in the office. He could not simply split between three different places concurrently.

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

KCGS issued an adverse vote recommendation against a nominee with a low attendance record. While serving as a full-time auditor, the nominee had not attended any board meeting.

The agency also recommended negative votes against two nominees whose minimum competence is hardly identifiable. The two candidates only had the experience irrelevant to the audit activities or business management although an auditor should rightly have a certain level of experience and knowledge about the accounting standards applicable to financial statements, audit, internal control, and risk management to monitor the business operations of the directors and management.

< # and % of negative voting recommendations against auditors by reason > [3)]

Category	Reason	2020		2021	
		# of proposals	Ratio	# of proposals	Ratio
Independence	Long consecutive terms	21	65.6%	14	42.4%
	Conflicting interests	8	25.0%	9	27.3%
Faithfulness	Overly concurrent positions	0	0.0%	7	21.2%
	Low attendance	0	0.0%	1	3.0%
Others	Lack of competence	0	0.0%	2	6.1%
	Administrative/judicial sanctions	1	3.1%	0	0.0%
	Excessive non-audit service fee	2	6.3%	0	0.0%
	Total	32		33	

(Director remuneration cap) 34.8% of the proposals for approving the remuneration ceiling for directors received negative recommendations by KCGS, similar to the figure from last year (31.4%).

For the evaluation of the appropriateness of the remuneration cap, the KCGS Proxy Voting Guidelines advise that investors make a comprehensive review of the size of the board of directors, the management performance, correlation with performance, and the actual payment rates against the ceiling, etc.

KCGS issued adverse voting recommendations against 126 companies that did not provide information about whether the remuneration was tied to performance and showed a low payment rate against the remuneration ceiling.

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

In the meantime, 21 companies reduced the remuneration cap amount for an inside director by 30% or more. Companies are taking action to narrow the gap between the remuneration ceiling and the actual payment.

Further, some made public concrete data about the maximum available range for performance-related pay, detailed quantitative and qualitative criteria, and performance enhancements in quantitative indicators. Others filed remuneration disclosure, providing the breakdown of the remuneration cap transparently. These cases indicate improvements in director remuneration disclosure.

Still, few companies disclose the computation of the amounts paid to the directors or provide the rationale why they set a markedly high remuneration ceiling when the average actual remuneration is low. To allow shareholders' informed decision-making, companies need to make more quality disclosure regarding the remuneration payment and the remuneration ceiling.

(Stock options) 55 companies tabled the proposals for granting stock options to executives and employees. KCGS issued adverse vote recommendations against 17 of them that failed to build the mid-to-long-term performance requirements for the exercise of the stock options or granted the options to ineligible persons.

KCGS recommended adverse votes against four proposals for granting stock options, citing that a stock option plan offered to outside directors (including audit committee members and auditors) potentially undermines the grantee's independence.

Meanwhile, the agency issued affirmative voting recommendations for three companies that can use the stock option plan as an effective incentive to attract top talents considering the industry-specific nature, such as the bio industry.

Also, a company granted the CEO a stock option plan tied to long-term performance by tightening the exercise requirements such as the exercise period, the stock price at the time of the exercise, and target achievement status.

< Stock Option Exercise Requirements of Company A (2021 AGM) >

Category	Details	Note
General	May exercise 1/3 each year over three years after three years from the grant date	The stock options expire if not exercised during the specified period.
Tightened exercise requirement	Exercisable if at least double the stock price as of the grant date is sustained for five consecutive days during the three years after three years from the grant date	-
Target-oriented	Exercisable when the grantee meets the mid-to-long-term targets set at the time of the grant	Performance evaluation is subject to internal policy and is done by the board.

(**Executive officer severance payment policy**) 35 companies tabled proposals to amend their policy on executive officer severance pay. KCGS issued negative vote recommendations against 13 companies, citing that the proposed severance pay is too large, and so forth.

Specifically, the agency recommended negative votes against the eight companies that did not disclose the full text of the policy or the companies that failed to provide a comparison of existing and updated versions of the policy, thus making it hard to gauge the various impacts of the change.

KCGS also issued adverse voting recommendations against the six proposals to amend the severance payment rates that may lead to excessive severance pay or the proposals to allow the CEO to decide on the special severance pay raising a procedural independence issue.

(**Shareholder proposals**) Seven companies had 24 shareholder proposals. KCGS recommended affirmative votes for 16 of them (66.6%).

For shareholder proposals, the KCGS Proxy Guidelines advise that investors take into account diverse factors influencing shareholder value comprehensively, including the illegality and legitimacy of the proposal, conflicting interests, and the impact on shareholder rights.

KCGS issued affirmative vote recommendations for the proposals deemed to help improve existing governance practices (10 proposals) or contribute to the resolution of the problems faced by the company (6 proposals).

Ⅲ. Implications

In the 2021 AGM season, KCGS observed some improvements in the practices surrounding dividends, director remuneration cap, and election of outside directors. The agency, however, issued a substantial percentage of adverse voting recommendations against auditor candidates, which still requires additional improvement efforts. The following is a summary of our review of the latest annual general meetings in Korea.

(Dividends) An increasing number of companies disclosed a substantive shareholder return policy prior to their general meetings of shareholders, including the targets and source of funds. It is positive that such information raises the predictability of dividends on the part of shareholders and helps a stable dividend culture take root.

(Director remuneration cap) Some companies narrowed the gap between the remuneration ceiling and the actual payment amount by substantially reducing the cap amount. Such action is helpful for shareholders trying to judge the appropriateness of the remuneration ceiling. Nonetheless, investors need to pay heed because many companies still propose a remuneration ceiling that is irrelevant to performance or the actual remuneration amount.

(Election of directors) The ratio of adverse vote recommendations against outside director nominees on the ground of low attendance fell substantially. It is an indication that prior monitoring of the attendance indicator (faithfulness) is improving.

(Election of auditors) More than half of the auditor nominees (55.8%) failed to meet the qualifications of independence, faithfulness, competence, etc. The board of directors need to review the qualifications of the auditor candidates more thoroughly.

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