

Korea Institute of Corporate Governance and Sustainability

Preview of 2024 Annual General Meetings

(Feb. 27, 2024 by Responsible Investment Team)

Seventh Revision of the 『KCGS Proxy Voting Guidelines』

- In line with the recent trends of corporate governance enhancements and a stronger emphasis on the protection of minority shareholder rights and interests, Korea Institute of Corporate Governance and Sustainability (KCGS) reflected in the seventh revision of its guidelines on proxy voting 『KCGS Proxy Voting Guidelines』 (the “Guidelines” hereafter) such trends that have an impact on the general meetings of shareholders of domestic listed firms.
 - Since the establishment of the Guidelines in March 2012, KCGS has regularly updated the Guidelines to reflect local and global corporate governance trends and to improve its consistency with related laws and regulations.
- The seventh revision incorporated the latest trends and best practices in Korea and abroad and received advice from external experts to support the responsible and rational voting of institutional investors and contribute to the sound development of the capital markets.
 - Proxy Voting Guidelines for Asset Managers, Korea Supervisory Service (FSS) and Korea Financial Investment Association (KOFIA) (Revised in Oct. 2023)
 - Corporate Governance Best Practices for Bank Holding Companies and Banks, FSS (Dec. 2023)
 - A revision bill of the Commercial Act proposed by the Ministry of Justice (MOJ) (Aug. 2023)
 - Proxy voting guidelines issued by major global proxy advisors
 - G20/OECD Principles of Corporate Governance (Revised in Sept. 2023)
- In particular, new provisions were added for the topics that the existing Guidelines did not have specific guidance on and thus the voting recommendations had to be issued based on other provisions dealing with similar topics. Also, for increased clarity, some of the provisions were amended and supplemented.
- Below are some of the key changes made in the Guidelines:

< Table > Updates in KCGS Proxy Voting Guidelines

Category		Amendments	
New entries and updates (27)	To reflect latest corporate governance trends (9)	<ul style="list-style-type: none"> • I-1.6 (Disclosure of Board Evaluation Information) • II-1.1 (Disqualifications of Director Candidates) • III-1.2.1 (Restrictions on the Disposal of Shares Received as Remuneration) • III-2.3.1 (Criteria of Measuring Performance Considering Sustainability Factors) 	<ul style="list-style-type: none"> • VII-1.5.2 (Disclosure of Sustainability Information) • VII-1.5.3 (Disclosure of Information on Responses to Climate Risk) • VII-1.6 (Restrictions on Shareholder Rights) • VII-4.4.1 (Virtual General Meeting of Shareholders) • VII-4.4.2 (Wholly Virtual General Meeting of Shareholders)
	To clarify the criteria of issuing voting recommendations (18)	<ul style="list-style-type: none"> • I-2.1 (Establishing an Audit Committee in the Company Where Such System is Not Mandatory) • II-3.1 (CEO Nominees' Professional Requirements and Qualifications) • II-3.1.1 (Standards for Evaluating CEO Nomination Procedure, Etc.) • II-4.1 (Disqualifications of Auditor and Audit Committee Member Candidates) • III-1.4 (Remuneration Cap on an Internal Auditor) • III-2.2 (Granting Stock Options) • III-3.1.1 (Decision on the Payment of Retirement Bonus for Management) • III-3.2 (Regulation on Severance Pay) • IV-3.5 (Dividends in Kind) 	<ul style="list-style-type: none"> • V-1.1 (Increase in the Total Number of Shares Authorized to be Issued) • V-3.1 (Capital Reduction) • V-5.1 (Issuing Equity-Linked Bonds) • VI-2.1 (Division and Merging through Division Expected to Harm the Firm Value) • VI-2.2 (Transfer of Business, Etc. Expected to Harm the Firm Value) • VI-2.3 (All-inclusive Exchange/Transfer of Shares Expected to Harm the Firm Value) • VI-4.1 (Hostile Takeover Defense Strategies) • VII-1.4.1 (Expansion of Resolutions Subject to Approval of the General Meeting of Shareholders) • VII-4.2 (Scope of Proxy Voters)
Others (13)	Deletion and integration (3)	<ul style="list-style-type: none"> • II-6.5 (Disclosure of Directors' Attendance and Voting Records) • V-1.1.1 (Capital Increase to Get Ready for the Exercise of Stock Options) • V-1.1.2 (Capital Increase to Escape Management Risk) 	
	To amend wording and modify provision numbers (10)	<ul style="list-style-type: none"> • I-1.4.2 (Record of Breach of Law Concerning Gender Diversity) • II-2.1 (Disqualifications of Independent Director Candidates) • II-4.4.2 (Record of Breach of Law Concerning the Separate Election of Audit Committee Members) • III-2.2.1 (Adjustment of the Stock Options Exercise Price or Volume) • III-2.2.2 (Approval of Stock Option Grants by the General Shareholder Meeting) 	<ul style="list-style-type: none"> • III-2.6 (Deferred Payment of Performance-Based Compensation) • III-3.3 (Retirement Benefits for Independent Directors) • VI-1.1 (Mergers and Acquisitions Expected to Harm the Firm Value) • VI-2.1.1 (Division and Merging through Division for Defending Management Control or Management Succession) • VII-1.5 (Shareholder Proposals)

Source: 「KCGS Proxy Voting Guidelines」(Feb. 2024)

- **(Directors' Duties)** There has been a growing emphasis on the importance of the duty of care and due diligence¹⁾ and the duty of oversight²⁾ of directors who are delegated authority by the company and its shareholders. In line with such trend, disqualifications of a director were newly added, such as regarding board meeting attendance and the establishment and operation of an internal control system, to issue voting recommendations against nominees that fall under them.
 - Under the existing Guidelines, not attending board and committee meetings was a disqualification of an outside director only. The revised FSS guidelines for company disclosure forms³⁾ announced in 2019, however, made it mandatory to disclose attendance data of those who are not outside directors as well, and the maximum possible term of a director (three years) has passed since then, releasing to the market a sufficient amount of information to refer to for voting decisions. Given the changes, KCGS made the subject disqualification applicable to all director candidates.
 - The targeted period and scope of the existing disqualification of an outside director candidate were amended to issue a negative voting recommendation against a director candidate “who attended less than 75 percent of the board meetings during his/her immediately preceding term”.
 - Meanwhile, a recent precedent stresses that all directors, not only the representative director, should discharge the duty of oversight in a way that ensures the establishment and operation of an internal control system⁴⁾.
 - With regard to financial companies, in particular, the Financial Services Commission (FSC) is expected to amend the Act on Corporate Governance of Financial Companies to specify the responsibilities and authority of the board of directors concerning internal control in accordance with the measures to strengthen

1) Article 382 of the Commercial Act (Appointment of Directors, Relationship with Company and Outside Directors) (2) The provisions of the Civil Act regarding delegation shall apply mutatis mutandis to the relationship between the company and the directors. Article 681 of the Civil Act (Mandatory's Duty of Care and Due Diligence) A mandatory shall manage the affairs entrusted to him/her with the care of a good manager in accordance with the tenor of the mandate.

2) The Commercial Act does not prescribe the duty of oversight of a director. Academic theories and judicial precedents recognize the duty of oversight as the duty of care of a good manager.; Chul-song Lee, 「Lecture on Corporate Law」 (31st Edition), PAKYOUNGSA, 2023, p.761-767.; Park, Changgyoo, Park, Seung Bae (2022), “A Study on a Director's Oversight Duty and an Internal Control System”, Korean Lawyers Association Journal Vol. 71(6); Supreme Court Jun. 25, 1985. Decision No. 84Daka1954; Supreme Court Dec. 10, 2004. Decision Nos. 2002Da60467 and 60474; Supreme Court Sept. 21, 2007. Decision No. 2005Da34797; Supreme Court Dec. 13, 2007. Decision No. 2007Da60080; Supreme Court Jul, 12, 2012. Decision No. 2009Da61490, etc.

3) FSS guidelines for company disclosure forms (Revised on Dec. 31, 2018) Article 7-1-2 (Important Matters for Resolution, etc.) (2) Shall record the attendance status of each director at each meeting and the status of approval or opposition for each agenda item.

4) Supreme Court May 12, 2022. Decision No. 2021Da279347

internal control of financial companies announced last June⁵⁾ and the key policy initiatives for 2024⁶⁾.

- In line with these changes, KCGS laid down the ground to issue a voting recommendation against “a person who has neglected his/her oversight duty, including the establishment or operation of an internal control system, with regard to the undisputed acts of harming the firm value or undermining shareholder interests”.
- **(Restrictions on Shareholder Rights)** The Guidelines recommend voting AGAINST proposals that include restrictions on shareholders’ exercise of shareholder rights unless such proposals are backed by reasonable and adequate justification.
- The existing Guidelines had provisions that help decide how to vote on a proposal that is actually or likely to restrict the exercise of voting rights, among shareholder rights, on a case-by-case basis. However, they did not have a separate provision for the case where the company intends to avoid or block a shareholder proposal.
 - The key provisions concerning restrictions on voting rights include those regarding strengthening the requirements of exercising minority shareholder rights (VII-1.3), changing the principal of resolutions (VII-1.4), restricting the qualification of proxy voters (VII-4.2 and VII-4.2.1), limiting the voting methods (VII-4.4), etc.
 - With regard to the proposals that restrict shareholder rights, such as the right to make proposals, the voting recommendations could have been made based on one of the principles of the Guidelines “protecting shareholders’ rights”. However, a new provision was added to establish the clear ground for a negative voting recommendation against such proposals.
 - A proposal that reduces (the rate of) the requirement under Article 542-12(4) of the Commercial Act (the so-called 3% rule) may also be regarded as a restriction on shareholder rights. The Guidelines, however, do not recommend against such a proposal if it is backed by rational and adequate justification, such as to limit the influence of large shareholders and enhance the independence of auditors or audit committee members.

5) FSC Proposes Measures to Strengthen Internal Control of Financial Companies, Press release of FSC, Jun. 22, 2023

6) 2024 Key Policy Initiatives, Press release of FSC, Jan. 16, 2024

< Table > Real Cases That Restrict Shareholders' Right to Make Proposals

Proposal	Details
Financial Statements and Dividends	As an item preceding a shareholder proposal concerning financial statements (or dividends/statement of appropriation of retained earnings), the company tabled a proposal that amends its article of incorporation to add a provision that allows the company to change the principal to approve financial statements to the board of directors. The company obtained approval of its proposal and made the shareholder proposal automatically excluded from the agenda.
Election of Directors	As an item preceding a shareholder proposal to elect directors, the company proposed to increase or reduce the maximum number of directors under the articles of incorporation. The company obtained approval of its proposal and made the shareholder proposal automatically excluded from the agenda.
Election of Auditors	As an item preceding a shareholder proposal to elect an auditor, the company i) tabled a proposal to amend its articles of incorporation to establish an audit committee and obtained approval of the proposal or ii) tabled a proposal that reduces the maximum number of auditors under the articles of incorporation from two or more and obtained approval of the proposal, thereby making the shareholder proposal automatically excluded from the agenda.
Election of Audit Committee Members	As an item preceding a shareholder proposal to elect an audit committee member who is a non-independent and non-executive director elected separately from other directors, the company tabled a proposal that amends its articles of incorporation to restrict the qualification of an audit committee member to an outside director. The company obtained approval of its proposal and made the shareholder proposal automatically excluded from the agenda.

Source: KCGS

- **(Restrictions on the Disposal of Shares Received as Remuneration)** The Guidelines recommend voting FOR proposals of banning the shares received as remuneration from being disposed of for a certain period via the methods of sale, transfer, lending, etc.
 - Equity compensation is an effective program in motivating the grantees to work harder for stock price appreciation since it compensates them with a remuneration tied to the stock price.
 - Such an incentive works only when the grantees hold the stocks and does not work if they sell off the stocks granted.
 - Under the Commercial Act, stock options, a way of equity compensation, are exercisable when the grantees continue to work for the company for at least two

- years from the grant date. However, there is no statutory vesting period for other methods of equity compensation.
- Placing a restriction on the shares received as remuneration works effectively as a deferred compensation for performance. As such, it is expected to prevent short-termism on the part of the grantees.
 - While the existing Guidelines had a provision on equity compensation for long-term performance (III.2.4), a new provision was added to cover the general equity compensation system, including stock grants.
- **(ESG & Performance-Based Compensation)** The Guidelines recommend voting FOR proposals requiring the consideration of sustainability factors such as human rights, supply chain management, fair operating practices, safety and health, and environmental performance in addition to financial performance in the metrics to calculate performance-based compensation for executives and employees.
- ESG disclosure initiatives, including IFRS Sustainability Disclosure Standards as well as the Task Force on Climate-Related Financial Disclosures (TCFD) and Global Reporting Initiative (GRI), recommend that companies explain how climate and other sustainability-related performance metrics are reflected in their compensation policies⁷⁾.
 - The board of directors should design the remuneration policy and practices for key management in a way that aligns them with the long-term shareholder interests and sustainable growth path. In this vein, the ground was established to issue a voting recommendation FOR the proposal that sets out performance metrics that consider sustainability elements appropriately.
- **(ESG Disclosure)** The Guidelines recommend voting FOR proposals of requiring the disclosure of information about sustainability topics that have a material impact on management activities of the company. In the case where the company falls under the “controlled emitter” under Article 27 of the Framework Act on Carbon Neutrality and Green Growth for Coping with Climate Crisis, the Guidelines recommend voting FOR a proposal of requiring the disclosure of

7) IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) sets out under the category of “Governance” that the governance body or individual discloses information about whether and how the performance metrics concerning sustainability-related risks and opportunities are included in remuneration policies. TCFD recommends under the category of “Metrics and Targets” that where climate-related issues are material, organizations should describe whether and how related performance metrics are incorporated into remuneration policies. GRI also requires that the organization shall describe how the remuneration policies for members of the highest governance body and senior executives relate to their objectives and performance in relation to the management of the organization’s impacts on the economy, environment, and people.

concrete information about climate risk.

- As ESG information is recognized as important information that must be provided to investors, new provisions were added to encourage the transparent disclosure of ESG data that should be managed according to each company's materiality assessment results or relevant laws and regulations.
 - Since the International Sustainability Standards Board (ISSB) issued inaugural global sustainability disclosure standards last June⁸⁾, governments around the world have been discussing institutionalizing mandatory disclosure of ESG information⁹⁾. Spain and Switzerland, among other countries, made it mandatory to obtain approval of non-financial information at the general meeting of shareholders, and now proposals regarding ESG information are being considered by shareholder meetings¹⁰⁾.
 - As for domestic listed companies, ESG disclosure will be made mandatory effective from 2026¹¹⁾. Domestic ESG disclosure standards are scheduled to be specified by the FSC in the first quarter of 2024 in consultation with the Korea Sustainability Standards Board (KSSB). The FSC announced plans to first consider requiring mandatory disclosure of information about climate areas, about which there is an international consensus¹²⁾.
- **(Introduction of Virtual General Meeting of Shareholders)** The Guidelines recommend voting AGAINST proposals of making changes to allow a virtual general meeting of shareholders in violation of relevant laws and regulations. The Guidelines also recommend voting AGAINST proposals of making changes to allow the company to hold an entirely virtual general meeting of shareholders only, while banning an offline or hybrid general meeting of shareholders¹³⁾.

8) ISSB issues inaugural global sustainability disclosure standards, IFRS Foundation, Jun. 26, 2023

9) In March 2022, the US SEC published a draft proposal for climate disclosure rules and began the comment period (the final draft is yet to be voted on). The UK, Australia, Japan, Hong Kong, Singapore, and Brazil, among other countries, announced plans to establish the rules based on the ISSB standards (KASB); The Korean Version of ISSB Standards Is Published to be Prepared for Strengthened Global ESG Disclosure Regulation, Press release of FSC, Dec. 26, 2023

10) (Spain) 'Ley 11/2018, de 28 de diciembre, por la que se modifica el Código de Comercio, el texto refundido de la Ley de Sociedades de Capital aprobado por el Real Decreto Legislativo 1/2010, de 2 de julio, y la Ley 22/2015, de 20 de julio, de Auditoría de Cuentas, en materia de información no financiera y diversidad.', <https://www.boe.es/buscar/doc.php?id=BOE-A-2018-17989>; (Switzerland) 'Bundesgesetz betreffend die Ergänzung des Schweizerischen Zivilgesetzbuches (Fünfter Teil: Obligationenrecht)', https://www.fedlex.admin.ch/eli/cc/27/317_321_377/de

11) Taskforce on ESG Finance Holds Meeting to Discuss Ways to Introduce ESG Disclosure System, Press release of FSC, Oct. 16, 2023.

12) FSC Vice Chairman Kim So-Young Attends and Delivers Congratulatory Remarks to the '2023 KCGS ESG Awards Ceremony', Press release of FSC, Dec. 15, 2023

13) The provision to recommend voting against a proposal to allow an entirely virtual general meeting of shareholders only is subject to the enforcement of the government-proposed partial revision bill of the Commercial Act concerning virtual general shareholder meetings, which is currently pending in the National Assembly.

- The partial amendment to the Commercial Act pending in the National Assembly lays down the legal ground to allow three types of a shareholder meeting: (1) the existing method where shareholders attend the meeting in person (offline general meeting of shareholders), (2) a new method where shareholders attend the meeting via an electronic communication mode (wholly virtual general meeting of shareholders) as per the stipulation in the articles of incorporation, and (3) another method where shareholders can choose between attending the meeting in person or via an electronic communication mode (hybrid general meeting of shareholders). The amendment, however, does not allow companies to opt out of both hybrid and offline shareholder meetings under their articles of incorporation and adopt a wholly virtual general shareholder meeting only.
- The advantages of a virtual shareholder meeting include that it can enhance shareholder rights and interests by increasing shareholder access to the shareholder meeting; it makes it easier to secure a quorum for a resolution; it strengthens the function of the general shareholder meeting as the meeting body composed of shareholders and as the highest decision-making body of a stock company; and it can save costs in the case of the wholly virtual meeting¹⁴). In the same spirit, the Ministry of Justice (MOJ) announced that it intended to introduce the virtual general shareholder meeting system “to overcome the limitations due to the principle of a physical shareholder meeting and to reduce the corporate costs incurred in the decision-making process”¹⁵).
- With regard to the wholly virtual shareholder meeting, there are negative comments as well, including the concern that it will limit communication between shareholders and management¹⁶). In this light, the Guidelines reflected the stipulation of the partial amendment to the Commercial Act that prevents companies from holding an entirely virtual general shareholder meeting only.

14) Kim Soon suk (2023), “Legal Issues on the Introduction of Virtual Shareholder Meetings into Korea”, *Advanced Commercial Law Review* Vol. 103; Kwon, Yongsoo (2021), “Overseas Cases of Virtual General Shareholder Meetings and Relevant Legislative Trends”, Korea Listed Companies Association; Song, Minkyung (2021), “Proxy Voting Service Infrastructure, Legislative Trends, and Implications – in Consideration of ESG Factors”, KCGS; Youngshin Yoon (2016), “The Trend of Foreign Legislations on Virtual Shareholder Meeting(VSM) and the Issues concerning Introducing VSM in KCC”, *Korean Commercial Law Association* Vol. 35(1), etc.

15) Legislative Notice of an Amendment to the Commercial Act to Improve the Corporate Business Environment and to Protect Shareholders – Introducing the Virtual General Meeting of Shareholders in line with Global Standards and Realigning the Appraisal Right System, Press release of MOJ, Aug. 24, 2023

16) Schwartz-Ziv, Miriam(2021), “How Shifting from In-Person to Virtual-Only Shareholder Meetings Affects Shareholders’ Voice”, *European Corporate Governance Institute – Finance Working Paper* No. 748/2021; Go Eun Yoo (2023), “Global Regulatory Trends and Implications concerning the Introduction of the Virtual Shareholder Meeting”, *KCGS Report* Vol. 13(12); Lee, Seunghee (2022), “Review of the Ways to Allow Virtual General Shareholder Meetings under the Commercial Act – Focusing on the Issue of Shareholder Rights Infringement of an Entirely Virtual Shareholder Meeting”, *Issue & Analysis* Vol. 2022-07; Shin Young Kim (2021), “A Study on the Virtual Shareholder Meeting in Korea- Focused on legal basis for permitting the VSM and ensuring it to operate efficiently”, *Business Law Review* Vol. 35(2); Song, Minkyung (2021), above article, Youngshin Yoon (2016), above article, etc.

Policy Initiatives to Enhance Minority Shareholder Rights & Interests

- Recently, regulatory authorities have been working to improve the laws and systems related to capital markets in Korea to better protect the rights and interests of minority shareholders.

Guaranteeing Dissenting Shareholders' Right of Withdrawal

- **(Granting appraisal rights in a split-off)** Following the revision of the Enforcement Decree of the Financial Investment Services and Capital Markets Act¹⁷⁾ to grant appraisal rights to the shareholders opposing the split-off of a listed company, the Commercial Act is also to be revised to the same effect where the total asset of the newly incorporated company after the split-off exceeds 10 percent of the total asset of the existing company¹⁸⁾.
 - The shareholders of a private company are also expected to be given a means to recover their investment if they oppose a split-off.
- **(Mandatory Tender Offer)** Regulatory authorities propose to revise the Financial Investment Services and Capital Markets Act (the “FSCMA” hereafter) to require an entity holding 25 percent or more of outstanding shares of a listed company and becoming the largest shareholder to make a public tender offer to purchase shares from the remaining shareholders so that its shareholding reaches at least 50 percent plus one share¹⁹⁾.
 - In Korea, most M&As take place in the form of stock transfers. However, there have been negative comments that they do not have sufficient measures to protect the shareholders of the acquired company relative to business transfers and mergers because stock transfer does not require a resolution by the general shareholder meeting and the dissenting shareholders are not granted appraisal rights²⁰⁾.
 - If the proposed amendment is approved and enforced, shareholders opposing an M&A will be able to collect their investments at the same price as that of the controlling shareholder, which includes a control premium.

17) Article 176-7(1)2 of the Enforcement Decree of the FSCMA

18) Partial revision bill of the Commercial Act, Bill No. 2125610, Nov. 24, 2023

19) FSC Holds Seminar and Unveils Measures to Protect General Shareholders in M&As via Stock Transfer, Press release of FSC, Dec. 21, 2022; Partial revision bill of the FSCMA, May 30, 2023 (Led by CHANGHYUN YUN), Bill No. 2122370

20) FSC, Dec. 21, 2022, above press release

Expanded Disclosure for Informed Investment Decisions

- **(Ex-ante Disclosure of Related-Party Transactions)** An amendment to the FSCMA²¹⁾ enters into force in July this year, which requires that board members and substantial shareholders of a listed company disclose the purpose and volume of the trading as well as the expected trading period in an ex-ante manner when they are to sell or purchase shares, equity-linked notes, and others of their own company over a certain volume. The amendment aims to enhance the fairness and transparency of a related-party transaction.
 - The details of the trading plan to be disclosed, minimum trading volume subject to the ex-ante disclosure rule, related parties and types of trading exempted from the rule, the cooling-off period from the date of disclosure until the day when trading can be resumed, and so forth will be finalized under a sub-regulation such as an enforcement decree.
 - Providing investors with information about stock transactions made by related parties in advance is expected to resolve information asymmetry and alleviate market impact by preventing unexpected related-party transactions of shares²²⁾.

- **(Improvements in Quarterly Dividend Payout Procedures)** Following the procedural improvements for paying out year-end dividends based on the authoritative interpretation of the MOJ, an amendment to the FSCMA has been proposed to allow companies to decide dividend record dates by resolution of the board of directors so that investors may know dividend amounts before making investment decisions. Under the current practice, companies have designated the quarterly dividend record date as the last day of each quarter²³⁾.
 - The board of directors of a listed company can set the dividend record date as a day that comes after the day the board makes a resolution to finalize the quarterly dividend amount and enhance the predictability of dividend amounts on the part of shareholders.

- In addition to the above-mentioned measures, regulatory authorities plan to implement diverse other policy measures to create a more investor-friendly stock market that is fairer and more transparent²⁴⁾.

21) FSCMA (Effective from Jul. 24, 2024. Act No. 20137, Partially amended on Jan. 23, 2024)

22) Ex-ante Disclosure Rule to be Introduced for Insider Transactions to Better Protect Ordinary Investors and the Fairness in the Capital Market – A revision bill of the FSCMA approved by the National Assembly, Press release of FSC, Dec. 28, 2023

23) Partial revision bill of the FSCMA, Proposed on Apr. 13, 2023 (led by HEEGON KIM), Bill No. 2121347

24) Government Holds Policy Forum on Enhancing the Role of Finance to Expand Co-prosperity and Ladder of

< Table > 2024 Financial Policy Initiatives

Purpose	Details
To protect minority shareholder rights and interests	- To specify company director liability to prevent a director from misappropriating business opportunities of the company
To strengthen efforts to increase shareholder value	- To implement the Corporate Value-up Program to upvalue the domestic stock market
To prevent large shareholders from pursuing private benefits	- To ban the allocation of newly issued shares to treasury stock holders when a spin-off takes place - To increase the disclosure of information about the entire process of the acquisition, holding, and disposal of treasury shares - To increase the disclosure of information about the issuance and circulation of convertible bonds - To rationalize the conversion price re-fixing practice

Source: Press release by the FSC – organized by KCGS

- With these trends in mind, institutional investors discharging a fiduciary responsibility are advised to review whether the board of directors of the investee company avoids new regulations or whether they are faithful in fulfilling newly imposed duties. They need to demand companies believed to have insufficient protection of shareholder rights and interests to improve their practices.

Continuously Expanding Shareholder Engagement Areas

- Relative to 2022, 2023 annual general meetings witnessed an increase in the number of shareholder proposals and that of the targeted companies by about 1.89 times and 1.57 times, respectively, and the approval rate reached almost 20 percent, a testimony to vibrant activities of filing shareholder proposals²⁵).
 - In particular, on a year-on-year basis, the proportions of shareholder proposals submitted by individual shareholders and minority shareholder alliances significantly increased by 2.2 times and 1.9 times, respectively. The increases are possibly due to the introduction of shareholder-friendly rules, such as the separate election of

Opportunity, Jointly by related Ministries, Jan. 17, 2024; 2024 Key Policy Initiatives, FSC, Jan. 9, 2024; FSC Holds Meeting and Announces Measures to Upgrade Rules on Treasury Stocks of Listed Companies, Press release of FSC, Jan. 30, 2024; FSC Announces a Plan to Improve the Soundness of the Convertible Bond Market, Press release of FSC, Jan. 23, 2024

25) 2023 AGM Review (1) Shareholder Proposals in Korea: Focused on changes by shareholder proponent and agenda type in past three years, KCGS, Jun. 26, 2023

audit committee members and the so-called 3% rule, which strengthened minority shareholder rights.

< Table > Shareholder Proposals Submitted to Listed Firms (2021~2023)

Category	2021	2022	2023
Number of proposals	95	90	170
Number of firms	24	30	47
Approval %	7.4%	4.4%	19.4%
Rejection %	74.7%	74.4%	60.0%

* The sum of the approval rate and the rejection rate is not 100% due to the proposals automatically excluded from the agenda and voluntarily withdrawn, among others.

** For 2023, until May 31 when the analysis was conducted

Source: KCGS

- This year again, companies are expected to receive many shareholder proposals. This AGM season is expected to have not only the proposals to increase the dividends and to elect directors, which accounted for most of the shareholder proposals thus far, but also the proposals of diverse other topics, including repurchasing and canceling treasury shares.
- Ahead of annual general meetings, this paper selects notable shareholder proposals among those made public to the market and introduces the background and progress of the shareholder engagement activities.

1) Samsung C&T – 3 Global Activist Funds

- In February 2023, Samsung C&T (“SCT” hereafter) announced a shareholder return policy that includes a plan to cancel its treasury shares (13.2% of outstanding shares or around KRW3 trillion in market price) over the next five years and to redistribute 60~70% of the dividend income from group affiliates²⁶).
- However, global activist funds Whitebox Advisors (“Whitebox” hereafter), Palliser Capital, and City of London Investment Management (“CLIM” hereafter) sent open letters to the company urging it to improve governance. The letters said that the shareholder return policy announced by the company did not deal with the trading discount problem, and the shareholder return was still insufficient.
- Through the earnings release on January 31 and the corresponding regulatory filings, SCT reduced the span of the treasury share cancellation program from five to three years, and increased the cash dividend per common share by KRW250 YOY (FY22 KRW2,300 → FY23 KRW2,550), increasing the size of total

26) Matters Related to Ad Hoc Public Disclosure Obligation (Fair Disclosure), SCT, DART, Feb. 16, 2023

dividends by around KRW40.9 billion (FY22 KRW376.4 billion → FY23 KRW417.3 billion)²⁷⁾.

- Meanwhile, CLIM and Whitebox joined hands with other institutional investors, including Anda Asset Management, and submitted a proposal to pay KRW736.4 billion in cash and buy back KRW500 billion worth of treasury shares. The proposal is set to compete for votes with the board proposal at the upcoming annual general meeting.

< Table > Global Activist Funds' Requests for SCT

Institutional Investor	Topic	Details
Whitebox	Dividend	- To reallocate cash generated from operating businesses and income from affiliates towards dividends and share buybacks
	Capital Allocation	- The shares trade at 68% discount to the net asset value (NAV). To adopt a clear capital allocation framework
	Executive Remuneration	- No linkage between executive compensation and TSR. Excessive remuneration (over KRW7 billion in 2022) paid to two retired executives responsible for damaging shareholder value (the merger between Cheil Industries and SCT) - To adopt an executive incentive structure oriented towards shareholder returns
CLIM	Dividend	- A dividend for FY2023 of KRW4,500 per common share and KRW4,550 per preferred share - To introduce a share repurchase program immediately, whereby KRW500 billion is allocated to buy back treasury shares during FY2024
Palliser Capital	Dividend	- To use the free cash flow generated by operating businesses and dividend income from group affiliates - To accelerate share buybacks and cancellation if shares trade at a discount to NAV
	Capital Allocation	- The company's intrinsic value is three times the current market capitalization (a disparity of around KRW33 trillion) - To identify excess capital and establish an optimized capital allocation framework
	Corporate Governance Restructuring	- To sell, or spin-off and list non-core businesses (leisure, fashion, and F&B), and to transition to the holdco structure - To appoint one CEO who will have direct responsibility for the entire SCT portfolio and capital allocation - To enhance board composition by appointing independent directors with proven capital allocation and industry expertise while enhancing diversity
	Executive Remuneration	- To adopt an equity compensation and incentive scheme to align senior management with the interests of shareholders

Source: Shareholder letters from Whitebox, Palliser Capital, and CLIM, organized by KCGS

27) Decision on Cash Dividends and Dividends in Kind; Decision on Capital Reduction; Retirement of Stocks, SCT, DART, Jan. 31, 2024

2) Top 7 Financial Groups – Align Partners

- In January this year, Align Partners Capital Management (“Align” hereafter) sent open letters to each board of directors at the top seven financial holding companies in Korea (KB Financial Group Inc., Shinhan Financial Group Co., Hana Financial Group Inc., Woori Financial Holdings Co., JB Financial Group Co., BNK Financial Group Inc., and DGB Financial Group Co.), In the letters, Align requested each company comply with their previously announced mid- to long-term shareholder return policies (50% in total shareholder return (TSR) as a principle) and control their annual growth rates of risk-weighted assets (RWA) at the level of the nominal growth rate of GDP²⁸).
- In response, when releasing 2023 earnings reports, all seven financial holding firms announced their respective capital adequacy ratios and mid- to long-term TSR targets with the requests from Align taken into account. Align responded that the announcements from two of the seven financial groups, i.e., Woori and JB, were not reasonable from shareholders’ perspective and urged the board of directors of the two holding firms to revise their mid-term capital allocation plan and the shareholder return policy.
- In the shareholder letters, Align also suggested that the holding companies improve their boards and governance, including by (i) increasing the number of directors, (ii) increasing the currently insufficient ratio of female outside directors, and (iii) strengthening the competencies and diversity of the board by recommending experts in the fields of IT, consumers, ESG, and global trends, in addition to finance and economics. Recently, in January, for the board of JB Financial Group, Align recommended three outside director candidates, one non-independent non-executive director, and one outside director who will serve on the audit committee.
- The suggestion is in line with the corporate governance best practices for a bank holding company presented by the FSS in December 2023²⁹). It is noteworthy whether Align will file a shareholder proposal to be considered at the upcoming annual general meeting for the election of directors with competency and a diversity factor.

3) Kumho Petrochemical – Largest Shareholder Park Chul Whan

- In his shareholder proposal from December 2023, Park Chul Whan, the largest shareholder of Kumho Petrochemical, requested the company to amend its articles of incorporation to report the purpose of holding treasury shares along with the

28) Korean Banks, Time to Keep Your Promise, Align Partners Website, Jan. 5, 2024; Open Letters to the Boards of Directors at Top 7 Bank Holding Companies in Korea, Align Partners Website, Jan. 24, 2024

29) Corporate Governance Best Practices for Bank Holding Companies and Banks, Press release of FSS, Dec. 12, 2023

- plan to cancel and dispose of the shares every year at its annual general meeting and to obtain approval from the general shareholder meeting in advance if they form cross holding shares through treasury share swap³⁰).
- Earlier in December 2021, Kumho Petrochemical exchanged 171,847 of its treasury shares (1.32%) with 298,900 OCI treasury shares (0.56%) to strengthen the strategic partnership between the two firms. Kumho Petrochemical decided to cancel the treasury shares equal to the number of the exchanged shares to enhance shareholder value³¹).
 - In response, the largest shareholder Park Chul Whan filed a lawsuit to nullify the treasury share swap between Kumho Petrochemical and OCI and lost the suit in November 2023. In a press release, Park Chul Whan made it clear that he would appeal the ruling and would actively respond to the company's exchange of treasury shares.
 - Meanwhile, Park Chul Whan, the largest shareholder, recommended inside and outside director candidates in 2021 and 2022 through shareholder proposals, and the terms of three outside directors and CEO Baek Jong Hoon expire in March 2024. Given such facts, a shareholder proposal to amend the articles of incorporation as well as the one to elect Park Chul Whan as a board member are both likely to be presented to the upcoming general shareholder meeting.
 - Park Chul Whan, the largest shareholder, made public on February 15 that he concluded a co-holding agreement with Tcha Partners Asset Management and entrusted his shareholder proposal right to the asset manager. Under the circumstances, they are expected to file shareholder proposals for the cancellation of treasury shares, board composition, etc.³²)
- Other than the above-mentioned companies, there have been many campaign activities and shareholder proposal requests from minority shareholder alliances since the annual general meetings from last year, including the cases of Hyundai Elevator vs. KCGI Asset Management, Samyang Packaging vs. VIP Research & Management, and DI Dong Il vs. a minority shareholder alliance. As such, this AGM season is highly likely to witness active shareholder activities.
- In particular, shareholder proposals are likely to be filed for share repurchases and cancellations with the growing interest in the use of treasury shares as a way to increase shareholder return and firm value.

30) Response to the unjustified treasury share swap. Park Chun Whan Shareholder Proposal Website, Dec. 15, 2023

31) Decision to cancel shares, Kumho Petrochemical, DART, Dec. 15, 2021

32) Report on significant holdings of stocks, etc. (General), Kumho Petrochemical, Park Chul Whan, DART, Feb. 15, 2024; Kumho Petrochemical Park Chul Whan's Statement, Park Chun Whan Shareholder Proposal Website, Feb. 16, 2024

- Accordingly, institutional investors are advised to exercise their voting rights responsibly with regard to the shareholder-proposed agenda items from the perspective of protecting the rights and interests of minority shareholders and enhancing firm value. ■

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