



한국ESG기준원
Korea Institute of Corporate
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Press Release

Release

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inquiry

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2023 KCGS ESG Evaluation & Ratings

- (Overview)** Korea Institute of Corporate Governance and Sustainability (KCGS) rated domestic companies^{*}’ environmental (E), social (S), and governance (G) performance and published their ratings for 2023.
 - * This year, KCGS rated 987 listed firms for ESG and 62 non-listed financial companies for governance only.
- The ESG ratings (S, A+, A, B+, B, C, and D) provide **incentives for companies to implement sustainable management** and help capital market players **perceive the quality of ESG practices at companies**.
- (2023 ESG Ratings)** As an observed trend, companies that had been preemptive in improving ESG practices and disclosing relevant information received upgraded ratings relative to the previous year. The ratings of the firms with a relatively lower awareness of ESG management did not show big differences from previous years, resulting in a wider gap between the leaders and the laggards.
 - Companies that had continued to implement ESG management were in a better position to respond to the assessments which were drastically revised in 2022, resulting in an increase of the firms rated ‘B+’ or higher by 10%p compared to the previous year (32%→42%).
 - Meanwhile, most (around 85%) of the companies rated ‘B’ or lower in 2022 (679 firms) stayed in the same ‘B’ or lower grade bands this year as well, indicating that they had only minimal improvements in their ESG practices.

< 2023 ESG-Integrated Ratings* >

Rating*	2023 (# of firms)**	2022 (# of firms)	Note
S	0	0	
A+	19 (2.4%)	5 (0.6%)	▲ 1.8%p
A	172 (21.7%)	116 (15.0%)	▲ 6.7%p
B+	141 (17.8%)	124 (16.1%)	▲ 1.7%p
B	49 (6.2%)	75 (9.7%)	▼ 3.5%p
C	212 (26.8%)	195 (25.3%)	▲ 1.5%p
D	198 (25.0%)	257 (33.3%)	▼ 8.3%p
Total	791	772	

* For company-specific ratings, visit the website of KCGS.

** Of 1,049 rated companies, only KOSPI-listed firms are included.

□ **(2023 Ratings by Category)** In all categories of E, S, G, and governance for financial institutions (FG), the percentages of the companies assigned higher ratings increased or remained more or less the same while the percentage of those rated 'B' (Average) decreased, indicating the need for those rated C and D to make continued improvements.

○ In the categories of G for general issuers and S, the gap between the leaders' group and those lagging widened.

< 2023 E.S.G Ratings by Category* >

Rating	E		S		G		FG	
	2023	2022	2023	2022	2023	2022	2023	2022
S	-	-	-	-	-	-	-	-
A+	39	9	157	76	8	5	5	3
A	166	85	155	146	110	77	31	26
B+	121	100	63	103	146	141	44	50
B	48	79	56	65	129	137	25	24
C	243	164	166	151	152	158	7	6
D	174	335	194	231	200	208	5	5
Total	791	772	791	772	745	726	117	114

* Of the rated companies, only KOSPI-listed firms are included. In FG, non-listed financial companies are also included.

◇ [Attachment] : Details of 2023 ESG Ratings

※ Go to <http://www.cgs.or.kr> for KCGS press releases.



Details of 2023 ESG Ratings

October 2023

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KCGS

| Overview of ESG Evaluation and Ratings

1. ESG Evaluation Overview

Areas of Evaluation

- o Environmental (E) Leadership & governance, risk management, operation & performance, and communication with stakeholders
- o Social (S) Leadership & governance, labor practices, workplace health & safety, human rights, fair operational practices, sustainable consumption, cyber risk management & privacy protection, local community engagement & development, and communication with stakeholders
- o Governance (G) Board leadership, shareholder rights protection, auditing, and communication with stakeholders

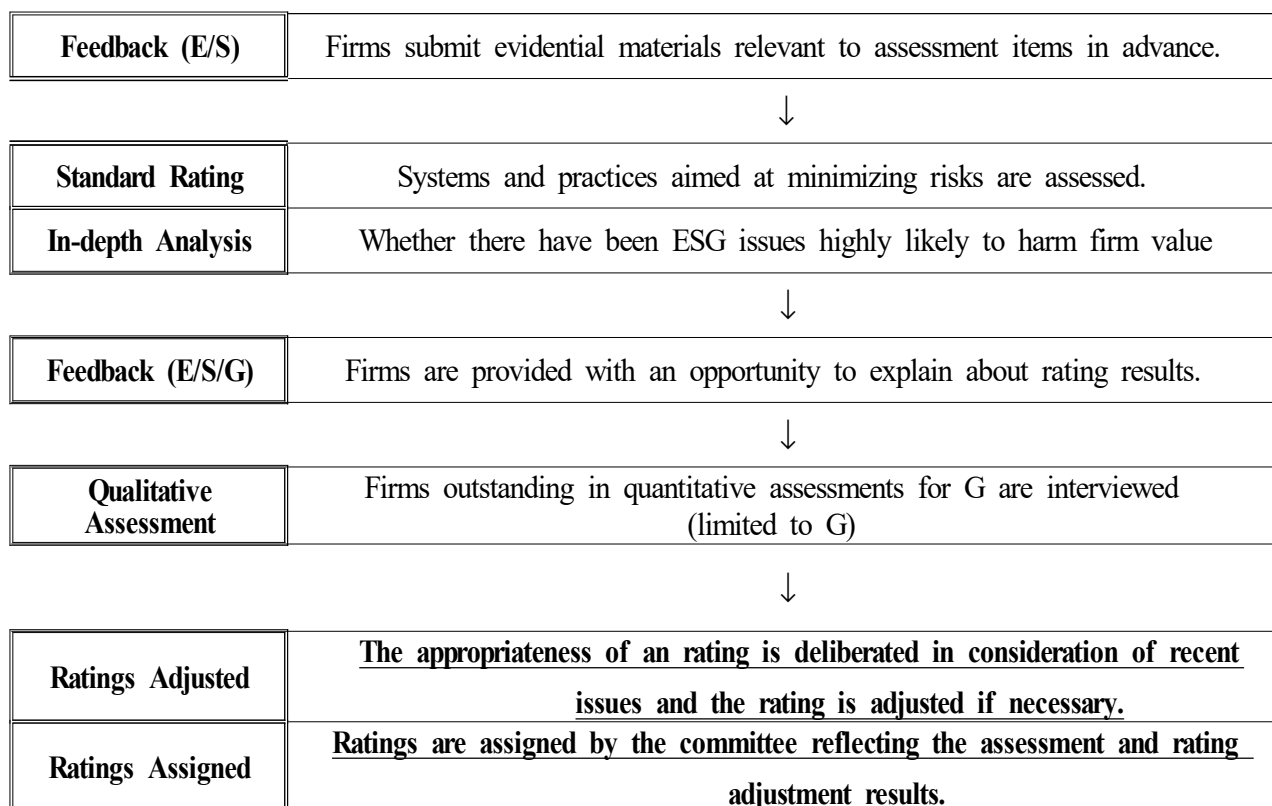
Governance for FIs (FG) Board of directors, shareholder rights protection, CEO, remuneration, risk management, auditing body & internal control, and communication with stakeholders

(Rated Companies) ESG-rated firms are selected according to the criteria below:

< Table 1 > Company Selection Criteria for ESG Ratings

In the scope	Out of the scope
<ul style="list-style-type: none"> - Listed on KOSPI - Some of the KOSDAQ-listed firms (belonging to large business groups, comprising key KRX indices) - Non-listed firms entirely subject to the Act on Corporate Governance of Financial Companies* <p style="font-size: small; margin-top: 5px;">* Financial holding companies; banks; and insurance, financial investment, and specialized credit firms above a certain asset size</p>	<ul style="list-style-type: none"> - Newly listed firms, those that commenced the rehabilitation process, and de-listed firms during the evaluation period - A paper company such as SPC - A foreign company headquartered overseas

- **(Rating Process)** Primary assessments are conducted based on the disclosed materials relating to the rated firms for G and disclosures and evidential materials submitted by the companies for E and S, which are then followed by the company feedback process and board interviews for the increased consistency of the rating results.



- **(Company Feedback)** With an increased interest in ESG management, the number of companies participating in the feedback process is growing year by year. For the 2023 ratings, 51% of the rated firms (535/1,049) provided feedback.

< Table 2 > Firms Participating in Feedback Process

Year		2023		2022		2021	
# of rated firms		1,049		1,033		1,005	
		(987 listed/ 62 non-listed)		(975 listed/ 58 non-listed)		(950 listed/ 55 non-listed)	
Firms providing feedback	E	45.5%	(449/987)	41.7%	(406/974)	32.7%	(311/950)
	S	45.6%	(450/987)	42.1%	(410/974)	36.2%	(344/950)
	G	47.1%	(439/932)	41.9%	(385/919)	30.5%	(273/894)
	FG	71.8%	(84/117)	78.9%	(90/114)	64.9%	(72/112)

2. ESG Ratings








ESG ratings help capital market players **identify the level of potential ESG risk** exposed to listed companies **more intuitively** and take into account the risk in the investment decision-making process.

o KCGS assigns 7-scale ESG ratings S, A+, A, B+, B, C, and D.

ESG ratings indicate the level of the ESG management system and related risk.

S	A+	A	B+	B	C	D
Excellent	Highly outstanding	Outstanding	Good	Average	Vulnerable	Highly vulnerable

< Table 3 > Letter Marks of ESG Ratings

Rating	What it Means
	Very faithfully aligned with the sustainability management system presented by the ESG Codes of Best Practices. An erosion in shareholder value driven by non-financial risk is extremely unlikely.
	Faithfully aligned with the sustainability management system presented by the ESG Codes of Best Practices. An erosion in shareholder value driven by non-financial risk is quite unlikely.
	Well aligned with the sustainability management system presented by the ESG Codes of Best Practices. An erosion in shareholder value driven by non-financial risk is unlikely.
	Efforts are necessary to an extent to align with the sustainability management system presented by the ESG Codes of Best Practices. An erosion in shareholder value driven by non-financial risk is a little likely.
	Efforts are necessary to an extent to align with the sustainability management system presented by the ESG Codes of Best Practices. An erosion in shareholder value driven by non-financial risk is likely.
	Absolute efforts are necessary to align with the sustainability management system presented by the ESG Codes of Best Practices. An erosion in shareholder value driven by non-financial risk is quite likely.
	Hardly aligned with the sustainability management system presented by the ESG Codes of Best Practices. An erosion in shareholder value driven by non-financial risk is definitely likely.

Based on the 2023 ESG rating results, the ‘ESG Standards Committee’ comprising members with expert knowledge and experience in E, S, and G assigned ratings (Oct. 19, 2023).

o As for the events occurring after the period targeted for ratings (2022 business year), the materiality of the issues was deliberated and the ratings were adjusted before the assignment of the ratings (12 firms).

The ESG rating results are used for the construction of KRX SRI indices.

< Table 4 > KRX SRI Indices

Name	Details
KRX ESG Leaders 150	Comprising the top 150 stocks with a high ESG-integrated score reflective of all areas of E, S, and G
KRX Governance Leaders 100	Comprising the top 100 stocks with a high G score or showing marked improvement in the G score
KRX Eco Leaders 100	Comprising the top 100 stocks with a high E score or showing marked improvement in the E score
KRX ESG Social Responsibility Management Index (S)	An index comprising stocks with a high S score out of ESG
KRX KOSPI 200 ESG	Comprising stocks of higher ESG performance out of the KOSPI 200
KOSDAQ Global Segment	Comprising stocks with a transparent corporate governance framework above a certain level among those positively received by the market and performing well in terms of profits or sales

Details of ESG Ratings

1. 2023 ESG Ratings

- KOSPI-listed firms generally saw their ESG ratings upgraded YOY.
 - Companies rated ‘B+’ or higher took up 42% of the total, up by 10%p relative to the previous year (32%). Those rated ‘B’ or lower accounted for 58%, down by 10%p compared to the previous year (68%).
- As companies that have implemented ESG management preemptively continue to improve their ESG practices and a growing number of companies are disclosing their ESG data, the proportion of the firms belonging to the leaders’ group increased while that of the firms rated ‘Highly Vulnerable’ (‘D’) fell.
 - However, there is a wider gap between the leaders’ and laggards’ groups as there are many firms whose awareness of ESG management is relatively low as evidenced by the inadequate quality of disclosed ESG information, etc.

< Table 5 > ESG-Integrated Ratings in Past 3 Years*

Rating	# of firms		
	2023	2022	2021
S	-	-	-
A+	19 (2.4%) ▲ 1.8%p	5 (0.6%)	14 (1.8%)
A	172 (21.7%) ▲ 6.7%p	116 (15.0%)	171 (22.4%)
B+	141 (17.8%) ▲ 1.7%p	124 (16.1%)	136 (17.8%)
B	49 (6.2%) ▼ 3.5%p	75 (9.7%)	211 (27.6%)
C	212 (26.8%) ▲ 1.5%p	195 (25.3%)	221 (28.9%)
D	198 (25.0%) ▼ 8.3%p	257 (33.3%)	12 (1.6%)
Total	791	772	765

* Of the rated companies, only KOSPI-listed firms are included.

2. Characteristics of Changes in Ratings by Category

- In all categories of E, S, G, and FG, the percentages of the companies assigned higher ratings increased or remained more or less the same while the percentage of those rated ‘B’ (Average) decreased, indicating the need for those rated C and D to make continued improvements.

< Table 6 > E.S.G Ratings in 2023 vs. 2022 by Category (KOSPI Issuers)

(Unit: # of firms)

Rating	E		S		G		FG	
	2023	2022	2023	2022	2023	2022	2023	2022
S	-	-	-	-	-	-	-	-
A+	39 (▲30)	9	157 (▲81)	76	8 (▲3)	5	5 (▲2)	3
A	166 (▲81)	85	155 (▲9)	146	110 (▲33)	77	31 (▲5)	26
B+	121 (▲21)	100	63 (▼40)	103	146 (▲5)	141	44 (▼6)	50
B	48 (▼31)	79	56 (▼9)	65	129 (▼8)	137	25 (▲1)	24
C	243 (▲79)	164	166 (▲15)	151	152 (▼6)	158	7 (▲1)	6
D	174 (▼161)	335	194 (▼37)	231	200 (▼8)	208	5	5

- **E (Growth in High Ratings):** The percentages of the firms assigned high ratings rose with the growing disclosures about climate and ESG management practices. The companies rated ‘Highly Vulnerable’ (D grade) also decreased by around 45.3% YOY, driven by active disclosure of environmental management practices by those who did not make any disclosure before.
- **S (Growth in Top Ratings):** The companies with established socially responsible management practices above a certain level were in a better position to respond to the revised assessments and moved from a high rating to a top rating. In the meantime, the firms assigned poor ratings or newly included in the scope last year did not have a required level of socially responsible management practices in place, which created a wider gap between those in the high and low rating groups.
- **G (Growth in High Ratings):** The averages increased generally and the percentage of the firms with a top rating rose, while the gap between those in the high and low rating groups widened even more. It has been

confirmed that it is hard to receive an upgraded rating without substantive improvements in governance practices.

- **FG (Trend Maintained):** The distribution across the rating grade bands remains almost the same as last year. Insurers and specialized credit firms that stayed in the middle rating groups, however, internalized ESG management strategies and improved risk management and succession systems, driving improvements in the category of FG.

2023 Regular Adjustment of ESG Ratings

- KCGS held an ESG Standards Committee and downgraded the ESG ratings of 12 companies (Oct. 19, 2023)
- KCGS conducted regular rating adjustments against rated companies by reflecting Q2 and Q3 2023 ESG rating adjustments and the ESG risks identified from July 2023 until October 2023, a period after the Q3 rating adjustments.
 - ※ Q1 data were not included because there were no rating adjustments reflective of ESG risks in Q1 (January 2023).

< Summary of 2023 Regular Adjustment of ESG Ratings >

#	Name of Company	Reason for Rating Adjustment	E		S		G		Integrated	
			old	new	old	new	old	new	old	new
1	Hankook Tire & Technology	(E) Fire at the Daejeon plant	A	B+	A+	A+	D	D	B	B
2	HD Hyundai	(E) Illegal discharge of wastewater containing phenol by Hyundai Oilbank's Daesan factory	A	B+	A+	A+	B+	B+	A	A
3	GS Retail	(S) Violation of the Act on Fair Transactions in Large Retail Business by forcing suppliers to bear marketing costs	A+	A+	A+	A	A	A	A+	A
4	LG Uplus	(S) Customers' personal information leak and sanctioned due to the violation of the Act on Fair Labelling and Advertising	A	A	A+	A	A	A	A	A
5	SK Telecom	(S) Sanctioned due to the violation of the Act on Fair Labelling and Advertising	A	A	A+	A	A	A	A	A
6	KT	(S) Sanctioned due to the violation of the Act on Fair Labelling and Advertising	B+	B+	A+	A	A	A	A	A
7	GS Engineering & Construction	(S) Parking garage collapse in the Incheon apartment complex	A	A	A+	B+	A	A	A	A
8	DL E&C	(S) Death of a subcontractor and continued safety accidents	A	A	A	B+	A	A	A	A

#	Name of Company	Reason for Rating Adjustment	E		S		G		Integrated	
			old	new	old	new	old	new	old	new
9	Korea Aerospace Industries (KAI)	(G) Former and current executives and employees charged with breach of trust in the amount of KRW10 billion	B+	B+	A	A	A	B+	A	B+
10	SGC Energy	(G) FTC imposed a fine of KRW3.55 billion for supporting an affiliate unfairly and for tunneling for related parties	A	A	A	A	B+	B	A	B+
11	SGC eTEC E&C	(G) FTC imposed a fine of KRW3.55 billion for supporting an affiliate unfairly and for tunneling for related parties	B	B	B	B	B	C	B	C
12	Kyongnam Bank	(G) Concerns about an inadequate internal control system with regard to embezzlement of KRW300 billion	-	-	-	-	B+	B	-	-