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2021 KCGS ESG Evaluation & Ratings

Korea Corporate Governance Service (KCGS) made public domestic companies' environmental, social, and governance (ESG) ratings for 2021. As for the scope, the agency rated 950 listed firms for ESG and 55 non-listed financial institutions for the governance category only.

The agency's ESG ratings comprised of S, A+, A, B+, B, C, and D provide incentives for companies to promote sustainable management. The ratings also help capital market players to recognize the quality of ESG practices at companies.

The 2021 final ESG rating results show that the number of firms belonging to the upper brackets grew driven by improved ESG practices at the KOSPI-issuers. The companies rated A increased while the percentage of those graded B+ remained more or less the same. The trend indicates that many moved up to a higher rating from B to B+ and B+ to A.

The companies rated B or lower accounted for 58% of the total, 10%p lower than the figure from last year (68%). The drop is a testament to increased interest and effort on the part of companies to improve their ESG practices. The fact that close to 60% of the firms still rated B or lower also tells that a significant number of companies need to work more to improve their ESG performance.

< 2021 Integrated ESG Ratings* >

Rating*	2021 (# of firms)	2020 (# of firms)	Note
S	0	0	
A+	14 (1.8%)	16 (2.1%)	▽ 0.3%p
A	171 (22.4%)	92 (12.1%)	▲ 10.3%p
B+	136 (17.7%)	134 (17.6%)	▲ 0.1%p
B	211 (27.6%)	260 (34.2%)	▽ 6.6%p
C	221 (28.9%)	236 (31.1%)	▽ 2.2%p
D	12 (1.6%)	22 (2.9%)	▽ 1.3%p
Total	765**	760	

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

** Of 950 issuers under the scope of the ratings, only KOSPI-listed firms are included.

There were enhancements across the three categories of environmental management, socially responsible management, and governance. For environmental, growing interest and accelerated shift to ESG management across the society played a role. Also attributable was an increasing number of companies taking part in the rating process proactively. For social, companies expanded their implementation of social responsibility, actively participating in the ratings and disclosing more information on their socially responsible management practices. For governance, listed companies showed markedly greater interest and put in much more effort in improving governance practices. Firms improved their practices in holding general meetings of shareholders and increased the effectiveness in the operation of the auditing body.

<2021 ESG Ratings by Category*>

Rating*	Environmental		Social		Governance		FI Governance	
	2021	2020	2021	2020	2021	2020	2021	2020
S	-	-	-	-	-	-	-	-
A+	11	10	136	71	8	9	5	5
A	116	58	111	82	154	94	11	7
B+	114	101	104	176	313	191	16	17
B	160	220	147	249	196	260	9	13
C	164	169	233	179	39	141	5	5
D	200	202	34	3	8	18	1	-
Total	765	760	765	760	718	713	47	47

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

** Of 950 issuers under the scope of the ratings, only KOSPI-listed firms are included.

Details of 2021 ESG Ratings

October 2021

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Overview of ESG Evaluation and Ratings

1. ESG Evaluation Overview

Areas of evaluation

- o Environmental(E): Environmental management, environmental performance, stakeholder engagement
- o Social(S): Employees, suppliers and competitors, consumers, local community
- o Governance(G): Protection of shareholder rights, board of directors, auditing body, disclosure

FI Governance: Protection of shareholder rights, board of directors, CEO, remuneration, risk management, auditing body and internal control, disclosure

(Rated Companies) Below are the selection criteria.

<Table 1> Company Selection Criteria for ESG Evaluation

In the scope	Out of the scope
<ul style="list-style-type: none">- Listed on KOSPI- KOSDAQ 150 Governance Index (KRX) stock- An affiliate of a large business group- Referred to by RI advisory service clients- FIs (for FI governance evaluation)	<ul style="list-style-type: none">- Newly listed during the evaluation period- A paper company such as SPC- A foreign company headquartered overseas

- **(Rating Process)** Primary evaluation based on company disclosure is followed by the company feedback process and board interviews for increased consistency of rating results.








	G	E·S	
① Preparation	April	June	List of companies in the scope finalized and the rating system updated
▼			
② Quantitative evaluation	~ July	~ Aug	Raw data collected including company disclosures, press releases, etc. and data verified in various ways
▼			
③ Company feedback	~ Aug	~ Sept	Two-way feedback with company personnel based on primary evaluation results
▼			
④ Qualitative evaluation*	~ October		Interviewing some of the companies with a good governance evaluation score
*(Governance) Qualitative factors reflected in the ratings such as the actual practice of board operation (starting from 2017)			
▼			
⑤ Ratings assigned	October		Evaluation results and the first-half rating adjustment issues reviewed to assign a final rating

2. ESG Ratings

- ESG ratings help capital market players identify potential ESG risk exposed to listed companies more intuitively and take into account the risk in the investment decision-making process. KCGS assigns 7 letter grades S, A+, A, B+, B, C, and D.
- ESG ratings indicate the level of ESG management system and related risk.

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

<Table 2> Letter Marks of ESG Ratings

Grade	Meaning
	Very faithfully aligned with the sustainability management system presented by the ESG codes of practice. 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 practice. 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 practice. 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 practice. 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 practice. 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 practice. 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 practice. An erosion in shareholder value driven by non-financial risk is definitely likely.

Based on the 2021 ESG evaluation results, the ‘ESG Rating Committee’ comprising internal and external stakeholders determined the final ratings on October 20, 2021. As for the events occurring after the evaluation period of the 2020 business year, the materiality of the issues was deliberated and the ratings were adjusted.

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

<Table 3> KRX SRI Indices

Name	Details
KRX ESG Leaders 150	Consisting of top 150 stocks of a high ESG score reflective of all areas of E, S, and G
KRX Governance Leaders 100	Comprising top 100 stocks of a high G score or showing marked improvement in G score
KRX Eco Leaders 100	Comprising top 100 stocks of a high E score or showing marked improvement in E score
KRX ESG Social Responsibility Management Index (S)	An index consisting of stocks of a high S score
KRX KOSPI 200 ESG	Consisting of the stocks of higher ESG performance out of KOSPI 200

1. 2021 ESG Ratings

- KOSPI issuers saw their ESG ratings improve YOY.
- The number of outstanding ESG performers (A or higher) increased YOY, but 58% of the companies are still performing poorly receiving B or lower (the figure stood at 68% in the previous year).

<Table 4> 2021 Integrated ESG Ratings and YOY Changes

Rating	# of firms		Note
	2021	2020	
S	-	-	
A+	14 (1.8%)	16 (2.1%)	▽ 0.3%p
A	171 (22.4%)	92 (12.1%)	▲ 10.3%p
B+	136 (17.7%)	134 (17.6%)	▲ 0.1%p
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Total	765	760	

2. YOY Rating Changes

- Of KOSPI-listed companies, those rated A increased in all respective areas of E, S, and G.

<Table 5> ESG Ratings in 2021 vs. 2020 (KOSPI Issuers)

(Unit: # of issuers)

Rating \ Category	Environmental		Social		Governance		FI Governance	
	2021	2020	2021	2020	2021	2020	2021	2020
S	-	-	-	-	-	-	-	-
A+	11	10	136	71	8	9	5	5
A	116	58	111	82	154	94	11	7
B+	114	101	104	176	313	191	16	17
B	160	220	147	249	196	260	9	13
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Total	765	760	765	760	718	713	47	47

- Drivers of upgraded ratings by category

- **Environmental:** There was a growing interest and accelerated shift to ESG management across the society. Also, an increasing number of companies took part in the rating process proactively.
 - To join the government's 2050 Carbon Neutral Strategy, companies worked hard to reinforce their environmental management system by establishing a carbon neutral strategy and producing an action plan.
 - Firms increased environmental performance-associated KPIs for the C-Level officers and achieved environmental performance improvements at the enterprise level.
- **Social:** Companies expanded their implementation of social responsibility,

actively participating in the ratings and disclosing more information on their socially responsible management practices.

- There was a significant increase in the number of firms that made quality disclosure about their practices for socially responsible management through various channels such as sustainability reports and company websites.
 - Companies took part in and responded to the agency's evaluation of their social responsibility performance increasingly actively through the feedback process and increased communication.
- **Governance:** Companies showed markedly greater interest and put in much more effort in improving governance practices. Firms improved their practices in holding general meetings of shareholders and increased the effectiveness in the operation of the auditing body.
- An increased number of companies disclosed their audit reports before sending out the notice of the annual shareholder meeting and submitted separate proposals for each respective candidate to elect directors (improving shareholder meeting practices).
 - More companies granted the auditing body the authority to consent to the appointment and dismissal of the chief managing the internal audit team. Also increased were the companies that had the auditing body review and approve the internal audit team's audit plan (improving the operation of the auditing body).
- **FI Governance:** There were overall improvements in various governance areas, including the board's effort to make ESG management take root, the protection of shareholder rights, the increased independence of the internal control body, and improvements around corporate disclosures.
- Improved operational practice of the board: more companies had their ESG risk reviewed by the board, and more boards had female directors.
 - Increased efforts to improve the independence of the internal control bodies such as the compensation committee and audit committee.