



# Press Release

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## **2020 ESG Evaluation & Ratings of Listed Companies**

Korea Corporate Governance Service (KCGS) made public the year's final environmental, social, and governance (ESG) ratings of domestic companies. As for the scope, 908 listed firms were rated for ESG and 55 non-listed financial institutions for governance only.

ESG ratings can act as an inducement to sustainable management at corporations. The ratings also enable capital market players to identify the level of ESG management of companies.

A feature of KCGS's 2020 ESG rating is enhanced timeliness. Increasing the frequency of rating adjustments from semi-annually to quarterly, the rating agency announced adjusted ratings in January, April, and July 2020. The final ratings for 2020 were determined by the year's fourth ESG Rating Committee meeting held on October 12, reflective of the previous adjustments in the year.

Looking at the final ratings, the number of firms in the upper brackets increased. The results are attributable to increased awareness of ESG on the part of the KOSPI-issuers and enhanced business environment. Despite an increase in issuers rated 'A' or higher, the percentage of those rated 'B+' remained more or less the same, indicating that many moved up to a higher rating, from B to B+, from B+ to A, and from A to A+.

In the meantime, the companies rated 'B' or lower accounted for 68% of the total. A significant number of firms are still poor performers in terms of ESG. For enhanced ESG performance of domestic companies, attention needs to be paid from a policy perspective, along with ongoing promotion and training.

< 2020 Integrated ESG Ratings\* >

Rating*	2020 (# of issuers)	2019 (# of issuers)	Note
S	0	0	
A+	16 (2.1%)	8 (1.1%)	▲ 1.0%p
A	92 (12.1%)	50 (6.7%)	▲ 5.4%p
B+	134 (17.6%)	135 (18.1%)	▽ 0.5%p
B	260 (34.2%)	259 (34.7%)	▽ 0.5%p
C	236 (31.1%)	266 (35.7%)	▽ 4.6%p
D	22 (2.9%)	28 (3.8%)	▽ 0.9%p
<b>Total</b>	760**	746	

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

\*\* Of 908 issuers under the scope of the ratings, only KOSPI-listed companies are included.

Enhancements are witnessed across the three categories. The level of environmental management, socially responsible management, and governance all improved. For environmental, companies and business groups implementing enterprise-wide environmental management and working to improve the subsequent performance are growing. For social, improvements are made in line with stronger regulatory measures on compliance. The trend of fair and human rights management in society at large also helped. For governance, changes in the capital market, including the adoption of the stewardship code, helped improve company practices surrounding general shareholder meetings and the operation of board committees.

< 2020 ESG Ratings by Category >

Rating*	Environmental		Social		Governance		FI Governance	
	2020	2019	2020	2019	2020	2019	2020	2019
S	-	-	-	-	-	-	-	-
A+	10	5	71	38	9	7	5	3
A	58	36	82	94	94	40	7	6
B+	101	90	176	153	191	196	17	20
B	220	241	249	234	260	271	13	10
C	169	176	179	211	141	158	5	7
D	202	198	3	16	18	26	-	2
<b>Total</b>	<b>760**</b>	746	<b>760</b>	746	<b>713</b>	<b>698</b>	<b>47</b>	<b>48</b>

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

\*\* Of 908 issuers under the scope of the ratings, only KOSPI-listed companies are included.

# Details of 2020 ESG Ratings

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October 2020

|| Contents ||

<b>I . Overview of ESG Evaluation and Ratings .....</b>	<b>1</b>
1. ESG Evaluation Overview .....	1
2. ESG Ratings .....	3
<b>II . Details of ESG Ratings .....</b>	<b>5</b>
1. 2020 ESG Ratings .....	5
2. YOY Rating Changes .....	6

# 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): Shareholder rights protection, board of directors, auditing body, disclosure
- o FI Governance: Shareholder rights protection, 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 scope
<ul style="list-style-type: none"><li>- Listed on KOSPI</li><li>- KOSDAQ 100 stock</li><li>- KOSDAQ 150 Governance Index (KRX) stock</li><li>- An affiliate of a large business group</li><li>- Referred to by RI advisory service clients</li><li>- FIs (for FI governance evaluation)</li></ul>	<ul style="list-style-type: none"><li>- Newly listed during the evaluation period</li><li>- A paper company such as SPC</li><li>- A foreign company headquartered overseas</li></ul>

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

	<b>G</b>	<b>E·S</b>	
<b>① Preparation</b>	<b>March</b>	<b>June</b>	List of companies in the scope finalized and the rating system updated



<b>② Quantitative evaluation</b>	<b>~ May</b>	<b>~ Aug.</b>	Raw data collected including company disclosures, press releases, etc. and data verified in various ways
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<b>③ Company feedback</b>	<b>~ June</b>	<b>~ Sept.</b>	Two-way feedback with company personnel based on primary evaluation results
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<b>④ Qualitative evaluation*</b>	<b>~ Early July</b>		Interviewing some of the companies with a good governance evaluation score
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\*(Governance) Qualitative factors reflected in the ratings such as the actual practice of board operation (starting from 2017)










<b>⑤ Ratings assigned</b>	<b>October</b>		<b>Evaluation results and the first-half rating adjustment issues reviewed to assign a final rating</b>
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## 2. ESG Ratings

- ESG ratings enable capital market players to 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 results of ESG evaluation over 2020, the ‘ESG Rating Committee’ comprising internal and external experts determined the final ratings on October 12, 2020. As for the events occurring after the evaluation period of the 2019 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. 2020 ESG Ratings

- KOSPI issuers saw moderate YOY improvement in their ESG rating.
- The number of outstanding ESG performers ('A' or higher) increased YOY, but 68% of the companies are still performing poorly receiving 'B' or lower (the figure stood at 74% last year).

&lt;Table 4&gt; 2020 Integrated ESG Ratings and YOY Changes

Rating	# of issuers		Note
	2020	2019	
S	-	-	
A+	16 (2.1%)	8 (1.1%)	▲ 1%p
A	92 (12.1%)	50 (6.7%)	▲ 5.4%p
B+	134 (17.6%)	135 (18.1%)	▽ -0.5%p
B	260 (34.2%)	259 (34.7%)	▽ -0.5%p
C	236 (31.1%)	266 (35.7%)	▽ -4.6%p
D	22 (2.9%)	28 (3.8%)	▽ -0.9%p
<b>Total</b>	<b>760</b>	<b>746</b>	

## 2. YOY Rating Changes

- Of KOSPI-listed companies, those rated ‘B+’ or higher in all respective areas of E, S, and G increased.

<Table 5> ESG Ratings in 2020 vs. 2019 (KOSPI Issuers)

(Unit: # of issuers)

Rating \ Category	Environmental		Social		Governance		FI Governance	
	2020	2019	2020	2019	2020	2019	2020	2019
S	-	-	-	-	-	-	-	-
A+	10	5	71	38	9	7	5	3
A	58	36	82	94	94	40	7	6
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B	220	241	249	234	260	271	13	10
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D	202	198	3	16	18	26	-	2
Total	760	746	760	746	713	698	47	48

- Causes of upgraded ratings by category

- **Environmental:** Enterprise-wide environmental management and efforts to improve environmental management performance
  - Rising demand for environmental disclosure
  - Growth in large business group-affiliated firms adopting environmental management
- **Social:** Improvements driven by compliance management system and stronger focus on human rights management
  - Increase in companies publishing a non-financial report
  - Enhanced quality of human rights management activities
  - Considerations for the socially disadvantaged

- Increased linkage between CSR activities and company strategy
- **Governance:** Enhancement in company practices of operating the board and the audit committee
  - Growth in companies establishing an outside director nominating committee and a compensation committee
  - Strengthening audit-related training
- **FI Governance:** Enhancement in company practices surrounding the management member nominating committee and the audit committee
  - Increased independence of the management member nominating committee
  - Improved communication practice between the audit committee and the external auditor