



Korea Corporate  
Governance Service  
(www.cgs.or.kr)

# Press Release

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## Proxy Review of Q1 2018 Annual General Meetings

### I. Overview

- The Korea Corporate Governance Service (KCGS) provided institutional investors with proxy reports with the aim of helping them exercise their voting rights, for the agenda items tabled to the annual general meetings held in the first quarter of 2018 of 237 companies with a 12/31 fiscal year-end.
- o Of the target companies, 162 are KOSPI-listed companies, 73 are on the KOSDAQ and 2 are KONEX-listed. The proxy analysis was conducted based on the KCGS Proxy Voting Guidelines (Guidelines), which was revised in February 2018.

### II. Proxy Review Results

- A total of **1,590 proposals<sup>1)</sup>** were tabled to the annual general meetings of the 237 companies. 872 of them (54.8%) were to elect directors, taking the highest proportion.
- The KCGS made **‘voting against’ recommendations against 225 proposals (14.2%)**, and a **majority (50.6%)** of the companies had at least 1 ‘against’ recommendation.
- o The ‘voting against’ ratio dropped compared to the previous year’s level of 18.0%, due to the two main reasons: the percentage of ‘against’ recommendations with regard to independent directors and auditors (audit committee members) nominated for serving multiple consecutive terms dropped by half year on year from 16.4% to 8.8% and the board and committee meeting attendance standards are relaxed in the revised Guidelines<sup>2)</sup>.

1) Limited to management proposals

2) Based on the revised Guidelines, the KCGS makes ‘against’ recommendations when the directors attended less than 75% of the board or committee meetings as a three-year average. Previously, the ‘against’ recommendations were made if the annual attendance rate was less than 75 in any year.

**<2018 AGM Proxy Review Results>**

Category	Total	Financial statements-dividends	Amendment to articles of incorporation	Election of directors								Director remuneration cap	Auditor remuneration cap	Other occasional items*
				Board of directors				Auditing body						
				Inside director	Director not engaged in regular businesses	Independent director	Sub-total	Audit committee member	Auditor	Sub-total	Total			
(%) Against recommendation	14.2	2.1	12.2	4.7	0.0	30.5	16.7	28.6	34.6	29.3	20.1	2.1	0.0	48.3
# of against recommendations	225	5	11	14	0	93	107	59	9	68	175	5	0	29
# of proposals	1,590	241	90	298	37	305	640	206	26	232	872	236	91	60

\* Company split-offs, creation/revision of retirement pay guidelines, stock option plans, stock splits, capital reserve reductions, etc.

- (Election of directors)** Except for the other occasional items, the proposals to elect **independent directors and auditors (audit committee members)** showed the highest level of ‘against’ recommendations at 30% approximately.
  - o In particular, there were 26 director nominees who attended less than 75% of the board meetings on average over the last three years, including the two cases where the **independent directors nominated for re-election had not attended any board meeting** over the same period.
  - o Our proxy analysis identified 11 nominees for independent directors or auditors (audit committee members) who were the parties related to the largest shareholders, controlling shareholders, etc. including the two cases where **former or current full-time executives of an affiliated company were nominated for the positions.**
  - o There were 18 cases where the director or auditor nominees were **assessed to have difficulties in discharging duties as a director or auditor in a faithful manner.** For example, a **full-time auditor nominee held a full-time executive position at another company.**

**< Reasons for ‘Against’ Recommendations by Director Type >**

Reasons	Inside directors <sup>*1</sup>	Independent directors	Auditors (audit committee members)	Total
Administrative/judicial sanctions	9	2	1	12
Damaged corporate value/ violated shareholder rights	5	8	7	20
Inappropriate dual roles	0	11	7	18
Parties related to largest shareholders, etc. <sup>*2</sup>	-	7	2	9
Working experience in the company or an affiliated firm	-	0	2	2
Parties related to stakeholders <sup>*3</sup>	-	29	22	51
Long-term consecutive appointments	-	30	17	47
Low attendance	-	19	7	26
Excessively large non-audit service fee	-	-	12	12
External auditor’s opinion other than ‘qualified’	-	-	3	3
Less than 4 audit committee meetings held	-	-	2	2
<b>Total <sup>*4</sup> (#)</b>	<b>14</b>	<b>106</b>	<b>82</b>	<b>202</b>
<b># of ‘against’ recommendations/nominees <sup>*5</sup></b>	<b>14/335</b>	<b>93/305</b>	<b>68/232</b>	<b>176/882</b>

<sup>\*1</sup> This category includes ‘other directors not engaged in regular businesses.’

<sup>\*2</sup> This category includes the parties related to the largest shareholders, substantial shareholders, and a subsidiary.

<sup>\*3</sup> Stakeholders include those who are in business/competing/cooperative relations, among others.

<sup>\*4</sup> The sum of the reasons may be larger than the sum of the ‘against’ recommendations because multiple ‘against’ reasons may exist in a proposal.

<sup>\*5</sup> In case a person was nominated both for the independent director and the audit committee member position, and a person was nominated for multiple companies, he/she was double counted.

**(Amendment to the articles of incorporation)** Not a few companies (11) tabled the **proposals of amending the articles of incorporation** which raised the concern that **corporate value may be damaged or shareholder rights violated**.

o A company sought to amend its articles of incorporation **to allow the board to make decisions via e-mail**, in addition to voice transmission. The KCGS had the opinion that a board meeting gains significance when it is **a collective decision-making body**, and that an e-mail resolution **does not serve the purpose of the board meetings**, which should make decisions in the best interests of the company by exchanging views and opinions.

o Another company proposed to amend the articles of incorporation but **did not disclose the details in the notice of the general meeting of shareholders, negatively limiting shareholder rights to review the amendment prior to the general meeting**.

o In addition to the above-mentioned cases, the KCGS drew attention to such proposals to **shorten the notice period to call a board meeting to 1 day before the meeting; to remove the requirement to obtain prior approval from the board; and to shorten the stock option vesting**

**period**, among others, all of which **may potentially violate shareholder rights**.

- o In the meantime, eight of the companies who sought to amend the articles of incorporation **separated the proposals if amendments were proposed on different kinds' provisions**, which is a desirable practice in the sense that it gives shareholders a choice.
- (Others)** A significant number of proposals (39) were found to be undesirable, with regard to dividend payouts, director/auditor remuneration cap and others.
  - o There were five proposals of **paying out excessively low dividends at a level that may potentially violate the rights of shareholders as capital investors. Another five more proposals set an excessively high cap for director remuneration in light of the performance and/or size of the company.**
  - o With regard to stock option grants, positive trends were noticed in some of the companies (8), who granted stock options linked with performance, for example, by setting up phased vesting schedules, introducing premium rates for each vesting period, and linking performance to the number of shares one can exercise.
  - o However, many more companies (25) **proposed stock options with scant linkage with performance, or those that are based on performance but with the possibility of distorting the incentive mechanism.**
  - o When creating or revising retirement pay guidelines for executives, some of the companies **introduced a sub-delegation provision against the purpose of the guidelines or allowed a retirement bonus without mentioning procedures.** The KCGS saw that these practices **undermined transparency**, and issued 'against' recommendations.
- As such, the KCGS found that **quite a few proposals would potentially harm shareholder value**. Listed companies are urged to make efforts to improve their practices and investors are advised to use due caution.

Contact for inquiry

Bang Moonok, Team Leader (+82-2-6951-3721, [moonoki@cgs.or.kr](mailto:moonoki@cgs.or.kr))  
Lee Suwon, Part Leader (+82-2-6951-3722, [swlee@cgs.or.kr](mailto:swlee@cgs.or.kr))  
Team 2, Analysis Division, KCGS