

On September 1, 2023, KCGS publicly adopted the Guidance, which was announced in Korean through the press release of the Financial Services Commission of Korea in May 2023. KCGS only provides this translation for convenience. In the event of any inconsistencies between the two language versions, the Korean version should prevail.

Guidance for ESG Ratings Providers

1. General Rules

A. The purpose of this Guidance is to improve the reliability, impartiality, and transparency of ESG ratings, contribute to the spread of ESG management, and strengthen the protection of information users and investors by prescribing matters concerning the standards and procedures for ESG ratings providers and their executives and employees (including contract workers, temporary staff, etc. the same shall apply hereinafter in this Guidance) to comply with in the performance of their ESG rating activities.

B. ESG ratings refer to the products and services that include ratings, scores, rankings, etc. (referred to as “ratings” hereinafter), which evaluate the exposure to or management level of ESG risks and opportunities of companies, etc.

C. This Guidance shall apply to the entities that provide ESG rating services, ratings, etc. (referred to as “ESG ratings providers” hereinafter) and their executives and employees. The conduct of an entity entrusted to perform a part of the activities of an ESG ratings provider by a contract, etc. shall be deemed as the conduct of the ESG ratings provider within the scope of the entrustment. In such a case, the ESG ratings provider may demand that the entrusted entity comply with this Guidance.

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D. This Guidance shall apply solely to the ESG ratings providers that have declared to participate in the acceptance and implementation of the Guidance voluntarily in agreement with the purpose and contents thereof. In accordance with the comply or explain approach, participating ESG ratings providers shall comply with the Guidance basically and explain the reasons if they cannot comply with the Guidance exceptionally. With regard to the detailed matters for which the Guidance cannot be complied with in consideration of the business models, etc., participating ESG ratings providers shall sufficiently explain the reasons for non-compliance and alternatives to information users and disclose the contents thereof.

2. Establishment of Internal Control System

A. ESG ratings providers shall put in place internal control standards to serve as appropriate standards and procedures with which their executives and employees should comply in performing their duties. Internal control standards shall include contents concerning how to handle the prevention of conflicts of interest and prohibition of unfair acts, among other things. In cases where ESG ratings providers identify concerns about particularly critical conflicts of interest, unfair acts, etc., they shall stipulate and disclose separate internal control policies about them.

B. ESG ratings providers shall have a compliance officer to perform the duties of monitoring compliance with internal control standards, managing conflicts of interest in the rating process, etc. In the cases where an ESG ratings provider has a compliance officer, it shall support the efficient performance of the compliance activities, such as by building and operating a compliance system and establishing a compliance program.

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C. ESG ratings providers shall ensure the independence, objectivity, professionalism, and consistency of ESG ratings to the fullest possible extent by establishing documented internal operational guidelines on the overall rating process.

3. Data Collection and Management

A. ESG ratings providers shall make efforts to determine ratings based on objective and verifiable data. In cases where estimated data are used, in particular, such fact and the basic methodology of estimation shall be disclosed. ESG ratings providers shall make efforts to disclose the scope of the source data, data collection methods, etc.

B. ESG ratings providers and their executives and employees shall use the information provided in a non-public manner for the purpose of ESG ratings solely for the purpose relevant to the performance of their duties. In cases where executives and employees have acquired non-public information about a rated company, they shall not use such information to buy or sell the financial investment instruments such as securities and derivative products of the pertinent company or make other transactions thereon.

C. ESG ratings providers shall establish, document, and disclose a management system concerning the entire process involving non-public information acquired in relation to ESG ratings, including the usage, storage, and disposal thereof.

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4. Disclosure of Rating System

A. ESG ratings providers shall disclose their ESG rating methodologies as transparently as possible so that information users, etc. may compare and judge the usefulness of the ratings or rating-related data. Rating methodologies shall include contents such as on the collection of source data, rating metrics, and the setting of weightings. In cases where there are material changes in the key practices, procedures, and rating process that are related to rating methodologies, efforts shall be made to collect opinions in advance or disclose the changes made in accordance with internal procedures.

B. ESG ratings providers shall disclose rating results, including company-specific ratings, etc., within the scope under paragraph D below. In disclosing rating results, ESG ratings providers may include specific details such as the definition of each rating in consideration of the convenience of information users and shall ensure that contents that may mislead information users are not included.

C. ESG ratings providers shall make efforts to provide information users with sufficient and accurate information. In disclosing information, ESG ratings providers shall use a method of high accessibility, such as their websites.

D. Rating systems, processed data such as rating results, materials, etc. of ESG ratings providers are of pecuniary value and may be protected by relevant laws and regulations such as the Framework Act on Intellectual Property and Copyright Act, and ESG ratings providers shall take this

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into account when disclosing their rating methodologies, rating results, etc.

5. Management of Conflicts of Interest

A. In performing activities concerning ESG ratings, ESG ratings providers and their executives and employees shall perform the activities in a fair and faithful manner from an independent perspective. ESG ratings providers and their executives and employees shall make efforts to avoid relationships, procedures, etc. that may impair the independence and fairness of the performance of their duties and to make public related facts appropriately.

B. ESG ratings providers shall put in place an internal procedure regarding the activities that identify, remove, and/or manage conflict of interest issues. In cases where an ESG ratings provider perceives that there is the possibility of conflicts of interest in ESG ratings due to other services it provides, such as consulting and advisory services, it shall separate the ESG rating activities and the personnel engaging in ESG rating activities from the pertinent duties and personnel. In cases where there is a report of conflicts of interest, ESG ratings providers shall review such a report and take measures necessary to mitigate conflicts of interest immediately.

C. ESG ratings providers shall establish and operate an internal policy to ensure that conflict of interest issues do not arise between the activities performed by their affiliates (including their executives and employees) in relation to ESG rating activities.

D. ESG ratings providers shall manage potential conflicts of interest in

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their ESG ratings involving the companies that have interests in them, such as being in an equity investment relationship of more than a certain ratio.

6. Relationship with Rated Companies

A. ESG ratings providers and their executives and employees shall not engage in unfair acts against the rated companies in performing their ESG rating activities. Unfair acts shall include such acts that coerce or solicit rated companies to use the services or products provided by the ESG ratings providers or their affiliates in exchange for the assignment of a specific rating, that adjust a rating depending on the usage of the service products provided by the ESG ratings providers concerned, etc.

B. Prior to the determination of a rating, ESG ratings providers shall notify the rated companies of the scope, contents, etc. of the data collected for ESG ratings, and make efforts to provide the rated companies with an opportunity to submit additional materials or explain errors if there are errors in the facts related to ESG ratings.

C. ESG ratings providers and their executives and employees shall not provide for or be provided by rated companies, etc. with pecuniary benefits in relation to ESG rating activities, such as money, goods, and convenience that are substantially out of a usual level in light of general trading practices or social norms.