

Emerging Market Disclosure Project

Korea Team

***Unlocking Investment Potential:
ESG Disclosure in Korean
Companies***

April 2010



Acknowledgements

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About EMDP

www.socialinvest.org/projects/iwg

The EMDP is an international initiative to improve corporate environmental, social and governance (ESG or sustainability) reporting in emerging markets. The EMDP is under the leadership of a steering committee comprised of representatives from Boston Common Asset Management, Calvert Investments and the Social Investment Forum (SIF) and SIF's International Working Group with technical advisory support from the United Nations Principles for Responsible Investment (UNPRI). The SIF is the secretariat for the EMDP. The UNPRI is also providing coordinating support for outreach with global investors for three of the country teams Brazil, India and South Korea.

The EMDP has unfolded in three phases. The first focused on assessing ESG disclosure trends and the second sought to demonstrate investor support for greater ESG disclosure among emerging market companies. The project is now in its third phase, which is focused on outreach and engagement to promote greater disclosure of sustainability factors by corporations operating in Brazil, China, India, Indonesia, South Africa and South Korea.

About SIF

www.socialinvest.org

SIF is the US national non-profit membership association for professionals, firms and organizations dedicated to advancing the practice and growth of socially responsible investing (SRI). Critical to responsible investment practice is the consideration of ESG criteria in addition to standard financial analysis. Nearly 500 SIF members support SRI through portfolio selection analysis, shareholder advocacy and community investing.

About KOCSR

www.kocsr.com

KOREA CSR Research Service (KOCSR) was launched as an affiliate of The Center for Corporate Social Responsibility in 2007. It incorporated in 2008 with a group of independent shareholders: NGOs, CSR institutes and religious organizations. KOCSR conducts comprehensive research on the social, environmental and ethical performance of over 100 Korean companies. KOCSR provides Korean companies' ESG data to global and Korean investors.

About EIRIS

www.eiris.org

EIRIS is a leading global provider of independent research into the ESG and ethical performance of companies. With over 25 years' experience of conducting research and promoting responsible investment strategies, EIRIS now provides services to more than 150 asset owners and asset managers globally.

About Responsible Research

www.responsibleresearch.com

Responsible Research is an independent provider of Asian ESG research, targeted at global institutional investors. Their approach is based on thematic and sectoral analysis of relevant ESG factors with benchmarking on criteria selected for materiality. They have also developed the Asian Sustainability Rating tool for responsible investors to benchmark performance in Asia. As a signatory

to the UNPRI, Responsible Research commits time and resources voluntarily to the EMDP as part of its commitment to collaboration on developing ESG tools.

Additional Contributor to the Korean ESG Project:

Eco-Frontier

www.ecofrontier.com

Eco Frontier is a sustainability management consultancy that provides advisory services for sustainable investment and management. Eco-Frontier's clientele includes leading financial institutions, national government organizations, public institutions and private companies in South Korea. Eco-Frontier focuses on business opportunities related to global environmental issues such as carbon finance and climate change.

EMDP thanks Enzu Jeon from INSEAD for her assistance in compiling this report.

Abstract

This report is a baseline study on the current status of CSR and SRI as well as ESG reporting trends amongst a sample of ten target companies in South Korea, as selected by the EMDP Korea Team.

The main aim of this report is to further emerging market investors' understanding of the Korean SRI/CSR landscape and the status of, and trends in, Korean companies' ESG reporting. This report also includes best practice and examples of laggards from amongst a target of ten South Korean companies. The team has developed an ESG score card which, we hope, will be helpful for other EMDP country teams for their baseline study. In addition, through this report, we expect that investors will discover effective ways to engage and collaborate on ESG issues with their portfolio companies in Korean markets in order to minimize their risks to earnings and derive long-term sustainable value within their holdings.

The EMDP Korea Team is the first Asian team to be established and has shown leadership on this initiative with the baseline report and performance metrics which is further elaborated in this report. The EMDP Korea Team consists of two co-leads, one global and one Korean, along with global and Korean supporting partners which are named in this report.

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KoSIF (Korea Sustainability Investing Forum): www.kosif.org

Eco-Frontier: www.ecofrontier.com

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

Solability: www.solability.com

Sustinvest: www.sustinvest.com

Contents

1. Executive Summary	6
2. Background and Research Methodology	9
A. Background	9
B. Research Methodology	10
3. Current Status of CSR & SRI in South Korea	12
A. Government Initiatives	12
B. Companies' ESG Management.....	14
C. SRI Market and Infrastructure	16
D. Stakeholders.....	18
4. Review of ESG Reporting in Ten Target Companies in South Korea	20
A. ESG Disclosure & Reporting	20
B. Environmental Issues	21
C. Social Issues	23
D. Governance Issues.....	25
5. Conclusions and Recommendations	26
6. Annex	27
A. EMDP Investor Statement on Sustainability Reporting in Emerging Markets.....	27
B. South Korean Signatories to the UNPRI.....	31
C. South Korean Signatories to the UN Global Compact	32
D. Main SRI-Themed Funds Managed in South Korea	33

1. Executive Summary

Current Status

The Korean government's 'low carbon, green growth' policy is seen as the most powerful driver for responsible investment in Korea. Encouragingly, over the past year the government has developed policy, regulatory and fiscal reforms that will become the framework for long-term sustainable growth. The government aims not only to make Asia a trading hub for carbon emission certificates and related products but an industrial centre for the development of energy efficient technology and green building leadership. Despite these apparent efforts, the new policies are being widely criticized for not going far enough in terms of tightening up on governance and social issues, as well for the perceived corruption in certain large scale environmental fiscal stimuli, such as the Reconstruction Project for Four Rivers.

Overall, the number of companies publishing CSR reports has increased rapidly since 2006 and most of them use Global Reporting Initiative (GRI) guidance, although experts and investors are still concerned at the quality and lack of materiality in reporting; only a tiny fraction of these glossy brochures deliver greater transparency on ESG risk to investors. Many companies, even the larger listed ones, still do not publish CSR reports and it is hard to find any reporting within the financial and service sectors and amongst holding companies.

Most Korean companies have, thus far, regarded environmental management as a key ESG strategy. They show relatively poor understanding and reporting on social issues, especially human rights and stakeholder issues, apart from corporate philanthropy for the local community. In the future, however, to prevent allegations of human rights abuses from multi-nationals who now monitor their global supply chains, they will need to establish relevant systems and begin the process of identifying stakeholders and conducting dialogue with them. On the whole, our target universe follows best practice on most governance indicators but in most cases the chairman still holds the CEO position which is widely regarded as being detrimental to good corporate governance.

Companies are generally less active on protecting minority and foreign shareholders rights and they tend to avoid shareholder engagement. However, since the Korea National Pension Service (NPS) became the first Korean *asset owner* signatory to the UNPRI in July 2009 they have taken the lead in the area of minority shareholder rights. We hope that they and other responsible asset managers will gradually change the attitude of Korean companies. Already, as a result of many drivers, such as global supply chains, the UN Global Compact and SRI indices (Dow Jones Korea Index and Korean Exchange SRI Index), they are introducing sustainable management systems and preparing for a more systematic approach to integrating ESG factors into their business strategies.

According to KoSIF data, Korean funds managed with a SRI overlay or theme stood at US\$ 2.4bn as of June 2009. An examination of the issues that SRI funds look at, demonstrates overwhelmingly that environmental issues are the most commonly adopted, being adopted by 60% of funds. The size of the Korean SRI market is still small, but many commentators predict that its rate of growth is increasing rapidly due to general economic growth and the huge increases in the size of corporate retirement funds. In addition to these factors, the launch of two new Korean SRI indices has further attracted investor interest in the UNPRI.

South Korea has witnessed a wide range of non-governmental entities that address the monitoring, educating and reporting of ESG issues and policies in the past few years. Nowadays NGO interest in CSR is developing beyond environmental and governance issues into human rights, labour and consumer rights issues. Certain local NGOs have also begun to apply corporate assessment standards that incorporate the values of Korean civil society. Also some religious and non-profit organization groups are preparing to launch SRI funds which reflect and integrate their missions and values. In general, this study has found that the Korean press prefers to highlight company best practice rather than criticizing individual management. They therefore have been very interested in sponsoring

corporate sustainability benchmarking and awards and have started to publicize SRI indices. They also continue to show a high interest in international initiatives such as the UN Global Compact, the UNPRI, the Carbon Disclosure Project (CDP) and the EMDP.

ESG Reporting in a Sample of Ten Target South Korean Listed Companies

Most of the companies selected for review have had their sustainability reports verified and all companies use the GRI reporting guidelines. All companies cover environmental issues in some depth and some companies have excellent reporting including policies, management systems, global coverage, high board-level responsibility, quantitative emission data and quantitative reduction targets. Building an environment-friendly product portfolio is also seen as part of most Korean consumer conglomerates' long-term business strategy and, perhaps because of the national green policy, most manufacturers engage their suppliers in upstream environment management.

The majority of companies reviewed, especially the manufacturers, show good disclosure on health and safety information. Community involvement is also mentioned frequently and examples are shown of successful community outreach programs, usually involving large numbers of employees. Many companies have now created separate foundations which are used as instruments for the founding families to support their chosen areas of need. It is common, however, for Korean companies to overstate their 'social contributions' by including many sponsorship projects that are actually straightforward marketing or advertising campaigns, such as cultural and sporting events.

Unfortunately, the social issue which is mostly ignored is basic human rights, where disclosure is non-existent or superficial at most. Many commentators also find a worrying imbalance between the treatment of workers in South Korea and the treatment of its employees in overseas subsidiaries. As Korean companies expand their supply chains across many developing countries, however, they are starting to prepare statements and systems which will address human rights issues. Most companies already have stakeholder management systems and stakeholder surveys are widely used. Additionally they have developed and adopted 'satisfaction' surveys to understand stakeholder needs especially amongst employees and customers. Generally speaking, however, Korean companies should incorporate more systematic stakeholder involvement into company ESG strategy, social reporting and monitoring (auditing) of ESG management and activity.

Most of the ten companies selected disclosed on at least three indicators relevant to corporate governance. On the issue of separation of chairman and CEO, only five companies met this challenge, a pattern similar to that found at other large Korean companies. Although all ten companies disclose some information on their anti-bribery activities, in general in Korea there are very low levels of reporting on policies regarding political donations. This is a 'corruption' issue very specific to Korea, where 'facilitation payments' to bureaucrats have emerged as the new bribery. Responsible companies could also disclose more specific information on anti-bribery systems such as training for employees, compliance mechanisms, risk assessment as to areas of vulnerability and correct procedures for the appointment and remuneration of business partners.

Conclusions and Recommendations

As outlined by the *EMDP Investor Statement on Sustainability Reporting in Emerging Markets*, disclosing environmental and social performance data is critical to investors for evaluating the following in Korean companies:

- **financial health and risk management**, as this information augments financial analysis by indicating material risks and potential liabilities that are often overlooked by general accounting standards;
- **management quality**, as ESG issues management can be used as a proxy for strong corporate governance and serve as an indicator of a company's overall management quality;

- **competitive positioning**, as firms in emerging markets are increasingly competing globally and will be assessed according to their ability to comply with evolving international standards, such as the European Union's Restriction of Use of Certain Hazardous Substances Directive (RoHS) and the Waste Electrical and Electronic Equipment Directive (WEEE) regulations. In addition, home country standards are changing quickly and creating opportunities for companies with forward looking environmental and labour policies and programs to distinguish themselves; and
- **growth potential**, as there is a large and growing body of evidence indicating that companies that are pro-active environmental stewards, responsible corporate citizens and strong employers are more likely to create long-term shareholder value.

We hope that all asset managers and asset owners find the report's findings on ESG disclosure gaps to be helpful in engaging with these companies on these issues. The team will share the initial findings with all companies highlighted in the report and will encourage them to address the gaps in ESG disclosure as well as encourage them to improve their overall stakeholder engagement processes.

For effective engagement with them, corroboration between global partners and Korean partners is now critical; so the EMDP Korea Team is communicating, with global UNPRI signatories via support letters through the UNPRI Clearinghouse, with these companies. The EMDP Korea Team will encourage Korean investment managers and asset owners to become signatories to the UNPRI following the lead taken by the NPS in 2009.

We will also encourage Korean investors to specifically support the EMDP and its activities by signing onto the *EMDP Investor Statement on Sustainability Reporting in Emerging Markets* and joining the EMDP Korea Team. Firstly we will encourage the NPS to make a public statement of commitment to support the EMDP and its activities as well following the lead taken by other emerging market pension funds, including those in Brazil and South Africa. We will also create further awareness of the EMDP Korea Team project through the Korean PRI network and through similar sustainability initiatives, including the CDP in Korea.

Whilst the report focused on assessing ESG disclosure by an initial set of ten Korean companies, the next phase of this project will expand the number of target companies for assessment and engagement to Korean companies that do not publish CSR reports and do not use the latest guidance from the GRI. Here the support of global investors working together with Korean investors through letter-writing under the UNPRI will be encouraged.

The EMDP Korea Team notes that some of the best ESG reporting practices spring from countries with mandatory reporting regulations, listing requirements and exchange-sponsored SRI indices. We therefore encourage investors to use their leverage with the Korean government, agencies and the stock exchange listing authorities to promote these reforms.

2. Background and Research Methodology

A. Background

Responsible investors are increasingly focusing on emerging markets as they seek to diversify their equity investments and therefore companies in these markets are increasingly becoming the focus of global investor and corporate responsibility initiatives. Investors who have become signatories of the UNPRI should make clear to these companies that ESG data is increasingly important to them and that improved levels of disclosure would enable them to understand corporate risk exposure and performance on these issues. So the EMDP, an international initiative spearheaded by the SIF has, for the past year, been focused on both reviewing the state of sustainability reporting in several emerging markets and encouraging investors to sign a statement encouraging emerging market companies to improve their sustainability reporting through phases one and two.

Now as part of phase three, the current focus of the EMDP is corporate engagement and the development of ESG integration in South Korea, Brazil, India, South Africa and Indonesia. Individual country teams have been formed to promote greater and improved sustainability disclosure with an emphasis on working with local institutional investors and research partners. Already the EMDP Korea Team is the first Asian team to be established and has shown leadership on this initiative with the baseline report and performance metrics.

South Korea is, in some ways, quite advanced in terms of corporate social responsibility. Interestingly the UN Global Compact has been rather more popular here than in the rest of Asia, although the UNPRI has had less success in attracting asset owner and manager signatories in South Korea than in other emerging markets, such as Brazil and South Africa, whose stock exchanges have both launched successful sustainability indices earlier than Korea. This is partly due to lack of resources on the ground, an issue that has now been to some extent addressed. As of January 2010 there were just seven investment manager signatories and six service provider signatories. However NPS, the sole asset owner signatory, has now signed, which should speed local adoption and capacity building.

The main aim of this report is to further emerging market investors' understanding of the Korean SRI/CSR landscape and the status and trends of Korean companies' ESG reporting. This report also includes best practice and examples of laggards from amongst a target of ten South Korean companies. The EMDP Korea Team has developed an ESG score card which, we hope, will be helpful for other EMDP country teams for their baseline study. In addition, through this report, we expect that investors will discover effective ways to engage and collaborate on ESG issues with their portfolio companies in Korean markets in order to minimize their risks to earnings and derive long-term sustainable value within their holdings.

We believe an engagement approach by investors, when delivered with cultural sensitivities in mind, can lead companies swiftly towards more sustainable business and reporting practices and will encourage the development of additional extra-financial research. Transparent, regular and collaborative contact with companies, for example, through the UNPRI Clearinghouse, will ensure that emerging market companies understand the focus that the global investment community now places on ESG analysis. Investors may also want to support the CDP in South Korea, the GRI or, indeed, the EMDP (currently unfunded and relying on voluntary contributions of time from members) for the next phase of this project, which needs to be updated. In this phase it is envisaged that investors will collaboratively engage with companies in order to encourage better disclosure of policies and other ESG criteria, such as climate change, water usage, human rights, health and safety, bribery and board governance.

B. Research Methodology

The Score Card

ESG Disclosure & Reporting

Variable	Sustainability/CSR Report		GRI Reporting	CDP Response
Unit/Scale	Latest Reporting Year	N - 0 Point, Y - 1 Point Verified - 2 Points (Any time within last 3 Years)	Y (Any time within last 3 years)	Y (Any time within last 3 years)

Environment Issues

Variable	Environment Overall			GHG Management			Water/Waste		LCA
	Environmental Policy	Board Level Responsibility For Environment	Management systems	Climate Change Policy	GHG/Energy Reduction Targets	Quantitative Data Disclosed	Quantitative Water Use Data Disclosed	Quantitative Waste Generation Data Disclosed	Applied to Product Design

Social Issues

Variable	Health and Safety		Community Involvement (Charitable donations, supporting volunteering etc)	Supply Chain Labour Standards (Not scored)			Human Rights		Stakeholder Management System
	Senior Responsibility	Quantitative Data Disclosed			Impact	Policy	Management Systems	Policy (referring to UDHR ¹ or ILO)	

Governance Issues

Variable	Anti-bribery		Core of Governance			
	Policy Management	System	Separation of chair and CEO	Having independence of at least 33% of the board	Audit committee with majority independent directors?	Disclosure of remuneration

The EMDP Korea Team has developed this simple score card to conduct an ESG review of a target of ten Korean companies. We decided to assess ten companies firstly through publicly available information, such as CSR reports, annual reports, website and other documents. Secondly we divided the issues to be monitored into four categories: disclosure, environment, social and governance. After that we selected relevant criteria from EIRIS research methodology which, we felt, represented essential points in Korean corporate CSR reporting and management in the view of global investors.

¹ Universal Declaration of Human Rights: <http://www.un.org/en/documents/udhr/>

Most of these indicators were assessed by a 'yes/no' grade based on publicly available information to avoid controversy associated with qualitative scoring.

Selection of Companies

The companies were selected for review on the basis that they have relatively good ESG disclosure and have global institutional shareholders. Their owners may potentially be interested in further stakeholder engagement in the third phase of this work stream of the EMDP. The EMDP has unfolded in three phases.

The first phase focused on assessing ESG disclosure trends in emerging markets through an initial baseline report of seventy-five companies in Brazil, China, India, Russia, South Africa and South Korea across the energy, metals and mining, and telecommunications sectors. In 2009 the EMDP released an additional baseline report assessing the sustainability disclosure of the largest capitalization companies across the top ten emerging markets, using data provided by the United Nations Conference on Trade and Development (UNCTAD).

The second phase sought to demonstrate investor support for greater ESG disclosure among emerging market companies through an *EMDP Investor Statement on Sustainability Reporting in Emerging Markets* signed by asset managers and asset owners representing over \$1 trillion U.S. dollars as well as twenty affiliated supporters. The EMDP further commissioned an investor survey in early 2009 to assess the level of responsible assets in emerging markets and key opportunities and challenges identified by investors to increase their investments in those markets.

The project is now in its third phase, which is focused on outreach and engagement to promote greater disclosure of sustainability factors by corporations operating in Brazil, China, India, Indonesia, South Africa and South Korea. There are currently five EMDP country teams established including Brazil, India, Indonesia, South Africa and South Korea comprised of global investors and research partners working together with local research providers and investors in those markets to push the companies to improve disclosure on material sustainability issues by companies through baseline reports, score cards, stakeholder roundtables and direct engagement with companies. More detail on the reports mentioned can be found at <https://socialinvest.org/project/iwg>. Our selection also covers all four major Korean industries - electronics, transport, semiconductors and telecommunications, as well as a bank and a utility company.

	Annual Revenues US \$m	Market Cap US \$m
Samsung Electronics	96456.36	100,244
Shinhan Financial Group	40279.51	18,876
Hyundai Motor	25598.21	17,074
Korea Electric Power Corporation(KEPCO)	23048.09	7,498
POSCO	33194.90	46,271
LG Electronics	13787.66	11,319
LG Chemical	10055.66	9,753
Korea Telecom (KT)	9304.16	4,285
SK Telecom (SKT)	9284.28	5,791
Hynix Semiconductor	5421.85	8,791

Source: Annual Revenue – from Companies' 2008 Annual Reports, Market Cap – FTSE (As of January 13, 2010)

3. Current Status of CSR & SRI in South Korea

A. Government Initiatives



Source: Green Growth Korea²

At present the Korean government’s policy known as ‘low carbon, green growth’ is the most powerful driver for responsible investment and sustainability amongst major Korean companies. The government has established a road map for this environment-related policy and promoted it according to the diagram above. They plan to invest US\$88bn over the next five years to achieve the aims of this policy. South Korea’s commitment to ‘greening’ its economy represents a fundamental shift in government attitudes towards sustainability. Encouragingly, the government has presented policy, regulatory and fiscal reforms that will become the framework for long-term sustainable growth.

According to the government’s plan, the majority of these new ‘green growth’ funds will invest in delivering energy efficient, renewable and clean technologies and products. New financial products are also being created in response to the government’s drive to green the economy. Banks are rebranding as ‘One-Stop Green Banks’ offering various services including preference loans to green initiatives and incentives for green venture capital and Public Private Partnership Funds. Some experts worry, however, that there is little transparency on guidelines for selecting companies to receive support.

The ‘low carbon, green Korea’ initiative announced last year, commits South Korea to lowering its carbon emissions to 50% of 2008 levels by 2050. This is one of the most obvious manifestations of the drive towards lowering the environmental impacts of industry. The government has plans to develop South Korea as Asia's trading hub for carbon certificates and related products. The government aims to achieve its target for emissions reduction through the activities of a new carbon exchange that will begin trading in 2011. South Korea's clean development mechanism (CDM) market is currently the world's fourth largest after China, India and Brazil. Korea Carbon Finance is South Korea’s first carbon trading company, launched in September 2008 with US \$4.3 million in capital and financed by Korea Investment & Securities, along with private investors.

² The Presidential Committee on Green Growth(<http://www.greengrowth.go.kr>)

Despite these efforts, the government's plan has been faced with strong opposition from the Korean public such as the opposition party, academia and NGOs. The government is criticized because much of program funding has been allocated to an environmentally sensitive canal project. So the government back-tracked on the canal project which will connect between major Korean rivers, instead has promoted the Reconstruction Project for Four Rivers , ostensibly to protect pollution and flood but it was also criticized as simply burying their head in the sand from opposite forces.

Many are also concerned that the US \$88bn due to be spent over the next five years will create a huge fiscal deficit, already exacerbated by the global economic crisis. Also the government's new sustainability policies are being criticized due to their neglect of governance and social issues. In practical terms, the present government loosened the limitation of conglomerates' circuitous and complex networks of cross-holdings and has been promoting 'poison pills', though many internal and external investors oppose this .³

Eventually this uncertain prospect surrounding the government's policy which could affect the SRI field could be changed by a transparent and balanced policy and the government's effort to persuade critical public opinion. So it is a little bit dangerous for global investors to too positively predict the future of Korea's SRI market. Considering the situation, global investors should also engage with the Korean government to encourage it to find the right policy together with Korean partners.

³ Last December, twenty-three institutional investors representing over US\$2.5 trillion in assets sent the letter to the Korean Ministry of Justice asking the ministry to forego a proposed amendment to Korean company law that would allow Korean companies to introduce poison pills. The letter also reflects the global nature of investors concerned, with seven countries and four continents being represented. (<http://www.calpers-governance.org/docs-sof/marketinitiatives/initiatives/korean-moj-ltr-poison-pills-14dec09.pdf>)

B. Companies' ESG Management

The number of companies publishing a CSR report has increased rapidly since 2006 and most of these reports follow GRI guidance.⁴ However the majority of experts acknowledge a general lack of global standard reporting. Many large companies still do not publish CSR reports, particularly companies in the finance sectors, services sectors, and holding companies. In addition to this, most Korean companies that publish a CSR report do not communicate with stakeholders whilst preparing and verifying their reports. Instead, companies often rely on professional groups such as consultancy firms or accountancy firms for the verification of reports despite the large costs attached to this and such verification scope and level is not enough.

Most Korean companies disclose basic policy related to ESG, but it is estimated that they should disclose the explicit system supporting relevant policy. Also they still are inactive on reporting how they implement the relevant system and what should be improved according to auditing results etc. Most companies do not show global coverage of ESG policies, systems and reporting. SRI investors should endeavour to raise these points to a consistent level in Korean companies.

It is considered that most Korean companies regard the management of environmental issues as a key ESG strategy. The Korean government's green initiatives are also strongly supported by domestic industry as they are recognized to deliver significant competitive advantages in an uncertain environmental future. As a result of this, the majority of companies are investing sizeable amounts of money into reducing green house gas emissions, preparing for carbon emissions trading and research and development into green technology and products, or the earmarking of money for future research and development here. In addition to this, many companies have introduced or have been implementing policies and systems to manage environmental risks.

Despite this, only a few companies show board level responsibility for environmental management. The disclosure of information on GHG is increasing rapidly, however the level of quantitative data disclosed still does not include enough concrete quantitative reduction targets.⁵ A similar trend can be seen in the disclosure of information related to water management. The degree to which life cycle assessment (LCA) is applied to product design varies across industry sector, but in the main the manufacturing industry is stronger on this than the financial and services industry.

Compared to environmental issues, most companies show relatively limited management of social issues, especially human rights and stakeholder issues. The social contribution of companies is the only exception to this. The limited management of social issues could originate from the historical background of CSR in Korea. Initial sustainability activities were focused on company reputation and social activities. The establishment of systems to manage risks associated with allegations of human rights abuses in global supply chains and the formation of CSR reports through consultation with stakeholders came after this.

Regarding governance issues, Korean companies show good overall practice on 'core' governance issues such as having independence of at least 33% of the board or having an audit committee with a majority of independent directors. However the proportion of companies with a separate chairman and CEO is low (only 15%)⁶ and disclosure of board member remuneration is also limited with most companies just disclosing the total amount of board member remuneration rather than the individual figures. This is a result of revisions to the Commercial Code and the Securities Exchange Act that have been amended several times in order to strengthen corporate governance laws and regulations in Korea since 1999. According to regulations, companies with over US \$2bn in assets must disclose publicly the total remuneration of their directors, however there is no obligation to publish individual board members' pay packages and no obligation for companies to have a separate CEO and chairman.

⁴ According to the Business Institute for Sustainable Development (BISD), since 2006 sixty-two companies have published CSR reports. (<http://www.bisd.or.kr>)

⁵ The response rate of CDP (50%) is the highest rate within the Asian area. (Carbon Disclosure Project 2009 Korea 100 Report, <http://www.kosif.org/>)

⁶ EIRIS-KOCSR Research Database.

Companies are also still inactive on minor and global shareholder rights and tend to avoid shareholder engagement. Now that the NPS, a powerful investor in the Korean market, as well as other asset managers have announced that they will use their shareholder rights positively, it is expected that the attitude of Korean companies will change on this issue.⁷

We are now seeing the introduction of sustainable management systems. This is as a result of many drivers such as global supply chains, the UN Global Compact and SRI indices (Dow Jones Korea Index and Korea Exchange SRI Index).⁸ These are producing a more systematic approach to the integration of ESG factors into companies' business strategies. As a result some companies have started to have a special board committee for CSR issues. As well as this, according to a survey by Solability, 97.8% of respondents expect that their company will have fully implemented sustainability management by 2014 and 65% of respondents indicate that sustainability has become more important within their company since the beginning of the global financial crisis.⁹

⁷ NPS reported that it will use its shareholder rights from 2010 at their twelfth board member meeting. (<http://economy.hankooki.com/lpage/society/200912/e2009121818132093760.htm>)

⁸ The number of Korean companies joining the Global Compact have rapidly increased since 2008 and now its participants amount to one hundred and sixty-seven companies. (<http://www.unglobalcompact.kr/eng/index.php>)

⁹ Solability is a Korean-Swiss joint venture providing ESG research to investors and sustainability services to corporate clients. (www.solability.com)

C. SRI Market and Infrastructure

In 2001, the SRI funds SRI MMF and Eco Fund were launched by CJ Asset and Samsung Asset respectively. Neither fund lasted long as they failed to attract the interest of investors as was the case with other non-SRI small funds. The introduction of greater information on SRI since 2005 in Korea has reverberated through the financial sector and as a result several public funds have been issued. However the real turning point in Korea emerged in November 2006 when the NPS, the largest institutional pension fund in Korea with more than 94% percent of the market share in Korea, entrusted its small capital (KRW 90bn: US \$8m) to three local asset managers in order to build up its SRI capacity.

A point in time		Public Fund	Private Fund	NPS Entrustment	Sum
30.04.2009		1,067,713,813	553,071,133	787,593,052	2,408,377,998
(US \$)		(1bn)	(553m)	(787m)	(2.4bn)
%		44.3	23.0	32.7	100.0
Amount of Fund (average: US \$)		50(20m)	23(24m)		73(22m)
Invest Region	Korea	58.36%			100%
	Global	41.64%			
Issue	ESG	28.55%			
	Gov.	9.64%			
	Env	61.81%			

Source: KoSIF (Korea Sustainability Investing Forum)

According to KoSIF, Korean funds managed with an SRI overlay or theme stood at US \$ 2.4bn as of June 2009.¹⁰ This figure can be broken down into three groups based on the origins of these funds. 44.3% of this total is publicly funded, 23.0% privately funded and 32.7% NPS entrustment. Excluding NPS' SRI entrustment, the total Korean SRI Fund market is valued at around US \$1.55 billion and accounts for just 0.68% percent of the total SRI fund market.¹¹ Many Korean financial experts are concerned about the flood of small and medium sized funds in the Korean market as they could make the market too volatile.¹² The same problem is present also in the Korean SRI market where the average fund size is only US \$22m.

There are currently seventy-three Korean SRI Funds. 58.4% of assets in these funds are invested in Korean companies and the rest overseas. An examination of the issues that SRI funds look at, demonstrates overwhelmingly that environmental issues are the most common issues being adopted by 60% of funds. These figures demonstrate that environmental issues have been identified as the primary target issues in Korean SRI. This also implies that Korean society has not yet reached a consensus about what issues should be considered and assessed when considering companies' ESG performance. These results could also be a result of the fact that governance and social issues are less easy to quantify and improvements in these areas are harder to measure.

¹⁰ KoSIF (www.kosif.org)

¹¹ Total Korean fund market: \$229.3 bn (fourteenth largest market from overall world fund market): Oct 19, 2009 (http://www.fnnews.com/view?ra=Sent0701m_View&corp=fnnews&arcid=091028223458&cDateYear=2009&cDateMonth=10&cDateDay=29)

¹² The number of funds in Korea is the highest in the world (9,512) however by assets it is only \$29m and accounts for 1/48 of USA funds: Sep 17, 2009 (<http://news.mk.co.kr/outside/view.php?year=2009&no=530141>)

The current size of the Korean SRI market is still very small. However due to the size of the fund market¹³ and the future growth in size of company retirement pensions, many experts predict that its rate of growth will grow.¹⁴ The recent launch of two Korean SRI Indices should also attract further interest from investors to SRI. The Dow Jones Sustainability Korea Index, launched last October, benchmarks the top 30% of firms out of the largest two hundred in the country, based on firms' practices on ESG issues. The Korea Exchange has also launched a SRI index by selecting seventy best practice companies. In addition to this, The Korea Exchange is also considering launching a 'Green Index', in response to, and in support of, the Korean government's environmental policies.

The Korean responsible investment industry has also gained wider recognition in the international financial marketplace since the NPS became the first *asset owner* signatory in Korea to the UNPRI in July 2009. In so doing, the NPS has been required to develop a set of policy and decision-making structures in order to address ESG issues in its investments. The NPS also plans to revise voting standards in accordance with the UNPRI. This means that it will engage more actively to screen out firms that do not reflect certain ESG issues and invest more in the ones that do. The NPS' action should encourage Korean companies to improve their management of ESG issues since the NPS is the largest internal investor which could directly influence companies' reputation in Korea.

There are still a limited number of SRI experts and SRI organisations in Korea although some ESG data providers have emerged since 2005. Some data providers have partnerships with global organisations allowing them to use their methodology and global brand reputation. Issues of 'conflicts of interest' or 'business ethics' have been an issue in the SRI business sector due to some solution providers providing ESG information to both investors and consulting services to Korean companies at the same time. Government and some public enterprises have received criticism because they hastily promote some projects, such as ESG awards for companies and study for ESG disclosure guidelines without detailing criteria and without corroboration with other existing private sector experts, organizations and civil society.

¹³ Some experts predict that the Korean fund market will grow up to \$880bn after ten years.

¹⁴ According to the Labour Ministry company total reserve of company retirement pensions amount to \$36bn, but it could be growing up to \$132bn according to Mirae Asset Retirement Pension Institute. (http://www.hankyung.com/board/view.php?id=today_tuja&no=25298)

D. Stakeholders

In recent times many initiatives such as KoSIF, UNEP/FI, UNPRI, UN Global Compact and the CDP have had a significant effect on the Korean SRI field. However prior to this, in the last few years South Korea has witnessed the development of a wide range of non-governmental entities addressing the monitoring, educating and reporting of ESG issues and company policies.

The Center for Corporate Social Responsibility (CCSR) has been an especially significant actor in promoting SRI in Korea.¹⁵ In 2001 the organisation issued the first SRI fund in South Korea, the SRI MMF, together with CJ Asset.¹⁶ CCSR campaigned for a company CSR report law with other Korean NGOs from 2003 to 2004. It has also been progressing shareholder activism to promote publishing CSR reports against Korean companies, including Samsung Electronics and LG Electronics since 2005 together with Catholic groups.¹⁷ It also conducted the 'Assessment Project for Korean Companies' CSR Report' together with Citizen's Action Network (CAN)¹⁸ and the Citizen's Movement for Environmental Justice (CMEJ).¹⁹ Through this experience, the organisation was able, in partnership with the religious group, Institute, to establish a SRI research company, KOCSR, in 2008. CCSR also played an important part in the establishment of KoSIF.

The organisation People's Solidarity for Participatory Democracy (PSPD)²⁰ has also played an important role within the area of corporate governance and transparency through the use of shareholder activism and the use of lawsuits.²¹ In 2006 PSPD established the organisation Solidarity for Economic Reform (SER) with the aim of building the movement for minor shareholder rights and improvements in corporate governance and monitoring government policy.²²

The Korean Federation for the Environmental Movement (KFEM) has a significant interest in CSR as one of its main activities is the monitoring of companies' environmental impact.²³ In August 2007 the organisation assessed the CSR status of thirty-five companies based on SMILE-1, KFEM's assessment tool, and ISO2600 guidance.²⁴ Currently KFEM runs a reporting center to find companies and agencies which are illegally achieving or giving the ISO14000 certification.

Nowadays, NGO interest in CSR has developed onto issues beyond governance and the environment, such as human rights, labour and consumer issues. NGOs have also been more active in trying to apply their values within corporate assessment standards. One example of this is the corporate labour index/human rights index of civil society. Some religious and non-profit groups are also active and they have a plan to establish a 'task force team' for the preparation of private SRI funds that reflect and integrate their mission and values.

Despite the progress of CSR in Korea, scepticism regarding the actual improvements on these issues made by companies as well as whether some companies are benefiting from unjustified publicity as a result of CSR is still present in civil society. Labour organisations in particular express concern that

¹⁵ CCSR is an ecumenical, faith based organization whose goal is to bring about more a just and sustainable society through the promotion of socially responsible investment strategies. More information regarding this can be found at: <http://www.ccsr.or.kr>

¹⁶ Several Catholic organisations together invested KRW 5bn (\$ 4.4m) into the fund however it was discontinued following new laws regarding small and medium sized funds in Korea

¹⁷ In 2005 only seven companies published a CSR report. However owing to CCSR's efforts the number of companies publishing a CSR report is now over sixty.

¹⁸ <http://feed.action.or.kr>

¹⁹ <http://www.eco.or.kr/>

²⁰ www.peoplepower21.org

²¹ Particularly it accused some directors in Samsung subsidiaries of dereliction of duty. PSPD insisted that they purposely provided Lee Gunhee's family with the opportunity to buy subsidiaries' stock at a lower price than market price so that Lee Gunhee's family can dominate the Samsung group.
(<http://blog.peoplepower21.org/Economy/14857>)

²² <http://www.ser.or.kr>

²³ <http://www.kfem.or.kr>

²⁴ They classified seven research areas according to ISO26000 guidance and then assessed based on their assessment tool, SMILE-1.

ISO26000 and SRI may give a positive gloss to companies still in violation on certain issues, especially employee issues, such as labour rights or health and safety.²⁵

In general the Korean media are reticent to publish negative stories regarding big companies since most of their revenue is generated from company advertising. Instead of criticizing companies, the press is more interested in publishing stories about company best practice. Therefore, some media have started to organize corporate sustainability assessment project and awards.²⁶ SRI Indices and international initiatives (UN Global Compact, UNPRI, CDP and EMDP etc) have also been covered widely by media outlets. This interest has also expanded from the minor press to major media outlets.

Korea still has a long way to go to resolve many challenges. At the present time most investors do not have confidence in SRI's competitive performance. Also NPS, one of the most influential investors in this field, has been establishing its SRI policy and structure slowly due to its many stakeholders, especially government and their significant influence on aspects of Korean society, including the finance market. Many experts also flag up that South Korea still lacks high quality, investment-relevant information on ESG issues and that the government has not yet sanctioned the development of a strong compliance regime to further the pursuit of sustainable investment. That is why the EMDP should work closely with Korean partners at this stage through engagement with the Korean government and companies.

²⁵ Standard providing guidelines for social responsibility (SR) named **ISO 26000** or simply *ISO SR* (<http://isotc.iso.org/livelink/livelink?func=ll&objId=3935837&objAction=browse&sort=name>)

²⁶ Hankyoreh Newspaper, one of the largest newspapers in Korea, had a CSR assessment and an award for Korean companies in December 2009 based on EIRIS-KOCSR data. (http://www.hani.co.kr/arti/economy/heri_review/393676.html)

4. Review of ESG Reporting in Ten Target Companies in South Korea

A. ESG Disclosure & Reporting

Variable	Sustainability/CSR Report		GRI Reporting	CDP Response
Samsung Electronics	2008	2	Y	Y
Shinhan Financial Group	2008	2 (Shinhan Bank)	Y	Y
Hyundai Motor	2008	2	Y	Y
KEPCO	2008	1	Y	Y
POSCO	2008	2	Y	Y
LG Electronics	2008	2	Y	Y
LG Chemical	2008	2	Y	N (declined to participate)
KT	2008	2	Y	Y
SKT	2008	2	Y	Y
Hynix	2008	2	Y	Y

Source: KOCSR and EIRIS Database, CDP website, Companies' websites and CSR reports

The EMDP Korea Team purposely selected ten target companies from all Korean companies.

Shinhan Financial Group, a holding company, does not publish a CSR report however Shinhan Bank, one of the holding companies' subsidiaries that accounts for 84% of its operations, does publish a CSR report. This result is to be expected as most Korean holding companies do not publish a CSR report.

Nine companies had their report verified by three professional firms. In contrast, KEPCO only disclosed three experts' opinions with regard to its CSR activity. All companies analysed used GRI guidelines and nine companies (all but LG Chemical) responded to the CDP survey.

B. Environmental Issues

Variable	Environment Overall			GHG Management			Water/Waste		LCA
	Environmental Policy	Board Level Responsibility for Environment	Management systems	Climate Change Policy	GHG/energy Reduction Targets	Quantitative Data Disclosed	Quantitative Water Use Data Disclosed	Quantitative Waste Generation Data Disclosed	Applied to Product Design
Samsung Electronics	Y	Y	Y	Y	Y	Y	Y	Y	Y
Shinhan Financial Group	Y	N	N	N	N	N	N	N	Y
Hyundai Motor	Y	Y	Y	Y	Y	Y	Y	Y	Y
KEPCO	Y	Y	Y	Y	Y	Y	Y	Y	N
POSCO	Y	Y	Y	Y	N	Y	Y	Y	Y
LG Electronics	Y	Y	Y	Y	Y	Y	Y	Y	Y
LG Chemical	Y	Y	Y	Y	Y	N	Y	Y	Y
KT	Y	Y	Y	Y	Y	Y	Y	Y	N
SKT	Y	Y	N	Y	N	Y	Y	Y	N
Hynix	Y	Y	Y	Y	Y	Y	Y	Y	Y

Source: KOCSR and EIRIS Database, Companies' websites and CSR reports

All researched companies cover environmental issues in their CSR policies. Samsung Electronics, Hyundai Motor, LG Electronics and Hynix met all nine indicators relevant to environmental issues. These four companies have policies and management systems covering key environmental issues such as resources, energy, emissions or waste. As well as this, their policies or systems are applied to all global operations. They also demonstrate board level responsibility for environmental issues by all having a special committee managed by someone from top level management such as a board member or CEO. In addition, all four firms have disclosed quantitative emissions data on GHG, water, and waste and quantitative reduction targets, including targets for GHG. LG Electronics, Samsung Electronics and Hynix were selected as leaders in climate change by the Korea CDP in 2009, according to the Carbon Disclosure Leadership Index.

The National Green Policy sees the building of an environmentally-friendly product portfolio as part of most Korean consumer conglomerates' long-term business strategy. Hyundai, LG and Samsung show strong performance in this area by developing products such as hybrid cars, solar power systems and components, and eco-conscious mobile phones. In the industrial sector, POSCO, Hynix and LG Chemical are focusing on research and development efforts towards energy efficiency and reducing hazardous chemicals in products and processes. Shinhan Bank claims to be actively building a green loan portfolio, supporting companies developing clean tech and renewable products.

Most big manufacturers are also engaging with suppliers in order to encourage upstream environmental management. Since 2003, Samsung Electronics has adopted an 'Eco-partner Certification Process' in order to control the use of harmful chemicals in final products. This is in response to the Restriction of Hazardous Substances Directive, a global initiative. In a similar context, LG Electronics has designed a green program certification system for all LG Electronics' partner firms

that supply parts, raw materials and other services. Hyundai also launched their Eco Chain System in 2006 and has been increasing green management practices in recent months.

In contrast to this, Shinhan Financial Group is regarded as a laggard on environmental issues. SKT also performs poorly relative to other companies. This is further evidence that many Korean financial and services companies consider environmental issues as irrelevant to their sector.

C. Social Issues

Variable	Health and Safety		Community Involvement	Human Rights		Supply Chain Labour Standards ²⁷			Stakeholder Management System
	Senior Responsibility	Quantitative Data Disclosed		Impact	Policy	Impact	Policy	Management Systems	
Samsung Electronics	Y	Y	Y	Y	Y	M	Y	Y	Y
Shinhan Financial Group	N	N	Y	N	N	L	n/a	n/a	Y
Hyundai Motor	Y	Y	Y	Y	Y	L	n/a	n/a	Y
KEPCO	Y	Y	Y	Y	Y	L	n/a	n/a	Y
POSCO	Y	Y	Y	Y	Y	L	n/a	n/a	Y
LG Electronics	Y	Y	Y	Y	Y	H	Y	Y	Y
LG Chemical	Y	Y	Y	N	N	L	n/a	n/a	Y
KT	Y	Y	Y	Y	Y	L	n/a	n/a	Y
SKT	Y	Y	Y	Y	Y	H	N	N	Y
Hynix	Y	Y	Y	Y	Y	L	n/a	n/a	Y

Source: KOCSR and EIRIS Database, Companies' websites and CSR reports

Most Korean manufacturers have implemented health and safety management systems based on OHSAS (Occupational Health and Safety Assessment Series) 18001 and KOSHA (Korea Occupational Safety and Healthy Agency) 18001, or have integrated health and safety issues and environmental issues in their environmental and health systems (EHS).

It can be seen that all companies researched, with the exception of Shinhan Financial Group, disclose health and safety information. Most of the manufacturers under review (Samsung Electronics, Hyundai Motor, KEPCO, POSCO, LG Electronics and LG Chemical) disclose quantitative data by year and some of these companies compare their data with their peers. They also disclose detailed data on employee training on health and safety.

Community involvement is mentioned frequently in publicly disclosed material. This is regarded within the Korean business sector as a core means for businesses to address social issues. In the past, information disclosed on this topic was mainly focused on financial contributions to charitable causes, infrastructure projects and education facilities. The boundaries of this area have now expanded to include more diverse areas such as support for health care projects and cultural causes. Another change is that community involvement is now frequently combined with ordinary business practices and with products produced. For example, KEPCO has been committed to providing discount tariff rates for the disabled, veterans, men of national merit, welfare institutions and national welfare beneficiaries. LG Electronics provides IT education programs, Shinhan Bank provides finance and economic education programs and Samsung Electronics sponsors information and communication

²⁷ In the case of supply chain labour standards, we assessed only three companies according to EIRIS-KOCSR risk impact analysis.

technology (ICT) projects in developing countries through World Vision. SKT and KT also provide IT and internet education programs. Hyundai Motor runs mobile, electronic classrooms and provides mobility to those with mobility needs such as the disabled and elderly people. Hyundai Motor also launched 'The Safe Move Campaign' to raise traffic safety awareness. LG Chemistry supports the Chemistry Frontier Festival, a chemistry camp and junior science class.

Many companies have created separate foundations. These are often ways for the founding families of the company to support their chosen areas of need. Most companies disclose detailed information such as employee volunteering activity, payroll giving, gifts in kind and matching gifts through their CSR report, website, and in other publications. However it is felt by some commentators that some companies tend to overstate their social contribution by including sponsorship projects carried out for advertising purposes such as sponsorship of cultural/ sporting events.

Though some emerging market companies now match the performance of their peers in developed countries on environmental issues it is estimated that many companies lag behind on critical human rights issues. The above assessment provides further evidence for this pattern, in contrast to their approach to other social issues. Eight out of ten companies disclose relevant information on human rights policies and systems but only at a basic level, mainly address issues such as the use of child and compulsory labour. Also terms such as 'human rights' are often misunderstood in Korean companies. Some companies deal with anti-discrimination as part of their human rights policies, a concept that is closer to equal opportunities than human rights. Investors wishing to discuss human rights issues during engagement with Korean companies should know this situation.

Sometimes the Korean media, global and Korean NGOs have reported on the differences in treatment received by employees of Korean companies in South Korea and the much more negative treatment of employees of overseas subsidiaries. As Korean companies expand their supply chains, especially in developing countries, most begin to address human rights policies or systems throughout their supply chain and global area of operations, for example Samsung (labour standards in the supply chain) and LG (human rights in Asian Emerging Markets MNCs). In the case of SKT, despite being assessed as 'high impact' with regards to their supply chain labour standards risk according to EIRIS methodology, they have no policy or system in place.²⁸

Most companies analysed have a stakeholder management system. Stakeholder 'satisfaction' surveys, especially to customers and employees, are a widely used vehicle for this. Some companies also include their supply chain in these surveys. For instance, Shinhan Bank runs four types of stakeholder surveys, to customers, employees, business partners and communities. Opinions are collected through these on areas such as consumer confidence, social issues, environment and capacity building. It is necessary for Korean companies to involve stakeholders when establishing their ESG strategies and when carrying out the social reporting, monitoring and auditing of their ESG management and activity.

²⁸ EIRIS classifies each company's supply chain labour standard risk as 'Low', 'Medium', or 'High' by considering each company's industrial sector, product, sourcing or sale from high risk products. Only companies that are identified as 'High' or 'Medium' risk are assessed for policy and systems.

D. Governance Issues

Variable	Anti-bribery		Core of Governance			
	Policy Management	System	Separation of chair and CEO	Having independence of at least 33% of the board	Audit committee with majority independent Directors?	Disclosure of remuneration
Samsung Electronics	Y	Y	N	Y	Y	Y
Shinhan Financial Group	Y	Y	N	Y	Y	Y
Hyundai Motor	Y	Y	N	Y	N	Y
KEPCO	Y	Y	Y	Y	Y	Y
POSCO	Y	Y	Y	Y	Y	Y
LG Electronics	Y	Y	Y	Y	Y	Y
LG Chemical	Y	Y	Y	Y	Y	Y
KT	Y	Y	Y	Y	Y	Y
SKT	Y	Y	N	Y	Y	Y
Hynix	Y	Y	N	Y	Y	Y

Source: KOCSR and EIRIS Database, Companies' websites and CSR reports

According to Korean law, Korean companies with over US \$2bn in assets must meet the following standards: 50% of the directors of the board must be external, companies must have an audit committee comprised of at least three directors and at least two thirds of the directors in this audit committee must be external. There are similar regulations for nomination committees, however remuneration committees are not yet required. Smaller companies need only appoint independent directors to 25% of positions on their boards. They do not need to appoint an audit committee.

Although the above law is in existence, it is estimated that board independence is not yet realised in most big corporations in Korea due to the large conglomerates, known as Chaebol, giving the final decision on most issues to the family head of the company.²⁹ In addition, although board independence is definitely on the rise in big companies as a result of the 50% ruling, it is thought that external directors have not been making independent decisions regarding top management. It has also been found that some so called 'external' board members are not independent from the company. Some have strong relationships with the company, such as through being a former executive of a subsidiary, having previously worked for over ten years as a board member or having had a business contract with the company. Most of the ten companies targeted disclosed three indicators relevant to core governance issues, however, only five companies demonstrated the separation of their chairman of the board and CEO. This pattern is very similar to other big Korean companies.

Although all ten companies disclosed some information on policies and systems on bribery, like other Korean companies there is large scope for improvement. It is especially important for companies to disclose policies on political donations and facilitation payments, practices that are emerging as the new methods of bribery, especially in developing countries. These anti-bribery policies should also be applied to all business partners (contractors/suppliers/agents) and should include specific information on anti-bribery systems such as employee training on these issues, compliance mechanisms, a risk assessment on the company's vulnerability and systems for the appointment and remuneration of business partners.

²⁹ According to KCGS, out of six hundred and eighty-five firms monitored, the CEO chairs 96.5% of the boards. (www.cgs.or.kr)

5. Conclusions & Recommendations

Global partners and Korean partners should closely corroborate at this engagement stage: Because of the strong 'low carbon, green growth' message from the Korean government and given by NPS' signing of the UNPRI, some global investors have an overly-positive view of the future prospects of the SRI market in Korea. This simplistic understanding could damage the asset value of global investors. In order to understand current CSR/SRI risk and opportunity more exactly, global investors could receive help from the Korean partners of the EMDP Korea Team. Equally, Korean partners responsible for contact with target companies could receive help from global organisations as most Korean companies show a more willing attitude towards global investors challenging them on issues than internal investors challenging them on issues.

The EMDP Korea Team should encourage investment manager and asset owner signatories of the UNPRI and the NPS to join the Korean supporting partners. As a first step, these investors could make a commitment to support the EMDP and its activities by signing onto the *EMDP Investor Statement on Sustainability Reporting in Emerging Markets*. They could also join the EMDP Korea Team: To date, only one Korean investor, NH-CA Asset Management, has co-worked with the EMDP Korea Team, the participation of the Korean investors' group at the engagement stage is critical to attracting Korean companies to this initiative. In order to get the Korean investors' group on board, it would be very helpful to contact investment manager signatories of the UNPRI and the NPS, as UNPRI signatories pledge to ask companies they invest in for standardized reporting on ESG issues using tools such as the GRI, and for ESG issues to be integrated within annual financial reports.

There is a need to expand the number of target companies. The EMDP Korea Team could consider assessment and engagement with Korean companies which do not publish CSR reports and do not use the GRI's latest guidance: The majority of the ten companies researched above demonstrate relatively good disclosure of ESG information when compared with Korean companies overall. Therefore it is necessary for investors looking to develop portfolios that include equities traded in Korean markets through EMDP, to have comparable information to make investment decisions. Expanding the number of companies researched on ESG issues and including laggards on ESG disclosure could be considered. This could be considered a reasonable step as many large Korean companies still do not publish a CSR report. This mixed approach could also contribute to a levelling up of Korean companies' ESG disclosure.

As some of the best ESG reporting practices come from countries with regulations, listing requirements and exchange-sponsored SRI indices, investors should also use their leverage with governments and listing authorities to promote these reforms: Considering the Korean government's influence on companies as well as the cultural context of Korean regulation and listing requirements, these are the fastest ways for investors to achieve universal sustainability reporting. Therefore, efforts to promote these changes must be undertaken in parallel with efforts to engage with companies to encourage ESG reporting on an individual basis.

6. Annex

A. Investor Statement on Sustainability Reporting in Emerging Markets

A Renewed Call to Action - February 2010

The Emerging Markets Disclosure Project (EMDP) is an international initiative to improve corporate environmental, social and governance (ESG or sustainability) reporting in emerging markets. The EMDP is under the leadership of a steering committee comprised of representatives from Boston Common Asset Management, Calvert Investments and the Social Investment Forum (SIF), with technical advisory support from the United Nations Principles for Responsible Investment (UNPRI). SIF is also the secretariat for the EMDP.

In June 2008, the EMDP's coordinators called on investors to join them in signing onto the **EMDP Investor Statement on Sustainability Reporting in Emerging Markets**, and 29 global institutional investors with close to \$960 billion in assets under management heeded that call to encourage companies in emerging markets to provide better ESG information. More than 15 other firms affiliated with the socially responsible investment movement, including investment advisors and research providers, also signed the statement in support of the initiative.

In February 2010, the EMDP Steering Committee reached out again asking for new signatories to endorse the investor statement which resulted in 46 global institutional investors with close to \$1 trillion in assets under management or advisement and 20 affiliated supporters becoming signatories. Many more of the signatories are from emerging markets including Brazil, Indonesia, South Africa and South Korea.

This renewed call to action comes as the EMDP enters its third and critical final phase, which is focused on outreach and engagement to promote greater disclosure of sustainability factors by corporations operating in Brazil, China, India, Indonesia, South Africa and South Korea. As part of this effort, country teams comprised of local and international investors will be sending letters to and meeting with selected companies, so it is more important than ever that they can point to investor support to help persuade the companies to improve their ESG reporting practices.

Introduction

The signatories to this statement recognize the important role corporate environmental, social and governance 'ESG or sustainability' reporting plays in helping investors to determine which companies are best positioned to deliver strong, long-term investment performance. At the same time, companies increasingly understand that effective management of sustainability challenges and opportunities can contribute directly to financial success by:

- Allowing companies to reach a broader range of investors.
- Achieving greater operational efficiency.
- Improving enterprise-wide risk management.
- Making more strategic capital expenditures decisions.
- Enhancing customer loyalty and developing new customers.
- Improving brand positioning and value.
- Developing and maintaining market leadership.

However, for such actions to be properly valued by financial markets companies must disclose information about their ESG programs and the progress made toward meeting specific ESG business objectives. For this reason, more than 2,300 global companies, including more than two-thirds of the constituents in the Global FT 500, issued sustainability reports in 2008.³⁰

³⁰ CorporateRegister.com (March 2009). *CR Reporting Awards '08, Global Winners & Reporting Trends*. Retrieved February 16, 2010, from <http://www.corporateregister.com/pdf/CRAA08.pdf>.

Why Sustainability Reporting

Disclosing environmental and social performance data is critical to investors for evaluating:

- Financial health and risk management, as this information augments financial analysis by indicating material risks and potential liabilities that are often overlooked by general accounting standards.
- Management quality, as ESG issues management can be used as a proxy for strong corporate governance and serve as an indicator of a company's overall management quality.
- Competitive positioning, as firms in emerging markets are increasingly competing globally and will be assessed according to their ability to comply with evolving international standards such as the European Union's Restriction of Use of certain Hazardous Substances Directive (RoHS) and the Waste Electrical and Electronic Equipment Directive (WEEE) regulations. In addition, home country standards are changing quickly and creating opportunities for companies with forward looking environmental and labour policies and programs to distinguish themselves.
- Growth potential, as there is a large and growing body of evidence indicating that companies that are pro-active environmental stewards, responsible corporate citizens and strong employers are more likely to create long-term shareholder value.

Sustainability Disclosure in Emerging Markets

As emerging market companies continue to grow in significance in the global economy, so do investor expectations for these companies. Emerging markets represent important investment areas, but a lack of transparency can hamper potential investment. Specifically, investors often do not have enough information on the manner in which companies in emerging markets have assessed and responded to risks and opportunities related to sustainability issues—and how these risks and opportunities might affect future financial performance and valuation.

In particular, the signatories to this statement encourage all companies to enhance transparency by working toward:

- Providing regularly updated ESG disclosure in financial reports or in specialized sustainability reports, focusing on the most material business risks and opportunities.
- Setting clear sustainability goals and disclosing progress towards meeting targets.
- Using the Global Reporting Initiative (GRI) framework in preparing their reports. At a minimum, we recommend that companies list exactly which GRI indicators are addressed in their reports as part of a 'GRI Index.'
- Continually improving their reporting based on feedback from key stakeholder groups, including both financial stakeholders and non-financial stakeholders, such as employees, customers and relevant community and civil society groups.

The EMDP's most recent baseline study underscores the need for improved reporting in emerging markets.³¹ It found that while 96 percent of the 100 largest emerging market companies reported on at least one ESG factor, only 14 of the 100 declared reporting in accordance with the GRI's guidelines, with a mere 20 making reference to the GRI. Furthermore, of the 28 companies in the study listed as signatories to the United Nations Global Compact, only 18 (64 percent) produced a Communication on Progress (COP) and/or a GRI report in compliance with the Compact's reporting requirements. In addition, only 30 percent of the companies offered any climate-related information.

Why the GRI

We urge companies to use the GRI's third generation, G3 Sustainability Reporting Guidelines to inform company reporting, and in so doing, increase the credibility, comparability, and utility of their reporting efforts. A GRI-based report also serves as a strong communication on progress for corporate signatories of the Global Compact.

³¹ Emerging Markets Disclosure Project. (December 2009). *Corporate Sustainability Disclosure in Emerging Markets*. Retrieved February 16, 2009, from http://socialinvest.org/projects/iwg/documents/EMDP_UNCTAD_REPORT.pdf.

The Global Reporting Initiative (www.globalreporting.org) is an international organization developed by businesses working with a broad base of global organizations. The GRI provides guidance on sustainability reporting process and content through the GRI guidelines, a flexible reporting system that allows companies to focus on the issues most relevant to company operations.

More than 1,000 organizations globally currently use the GRI guidelines in developing their sustainability reports. In fact, of the 3,100 companies issuing sustainability reports in 2008 tracked by CorporateRegister.com, approximately one third followed the GRI's guidelines in issuing reports, making it the most widely used standard worldwide.³² Similarly, KPMG found that 60 percent of the Global Fortune 250 and more than 30 percent of the 100 biggest companies worldwide by revenue used the GRI guidelines in their reporting in 2008.³³

Conclusion

The signatories to this statement believe that the next generation of leading companies will distinguish themselves through their commitment to sustainability, as demonstrated through robust sustainability reporting, and will be correspondingly rewarded by the market.

2010 Signatories:

1. Allianz Global Investors Korea Limited
2. Bâtirente
3. Blue Summit Financial Group, Inc.
4. Boston Common Asset Management, LLC
5. British Columbia Teachers' Federation Salary Indemnity Fund
6. Calvert Investments
7. Canadian Labour Congress Staff Pension Fund
8. Christian Brothers Investment Services, Inc.
9. The Christopher Reynolds Foundation
10. Church of the Brethren Benefit Trust, Inc.
11. Comgest
12. The Co-operative Asset Management
13. DnB NOR Asset Management
14. Domini Social Investments LLC
15. Element Investment Managers (formerly Frater Asset Management)
16. Environmental Investment Services Asia Limited (EISAL)
17. Ethos Foundation
18. F&C Management Limited
19. FIM Asset Management
20. GES Investment Services
21. Government Employees Pension Fund of South Africa
22. Henderson Global Investors, Sustainable and Responsible Investment
23. Local Authority Pension Fund Forum (LAPFF)
24. Macif Gestion
25. Mercy Investment Services
26. Meritas Mutual Funds
27. Merseyside Pension Fund

³² CorporateRegister.com (March 2009). *CRReportingAwards '08, Global Winners & Reporting Trends*. Retrieved February 16, 2010, from <http://www.corporateregister.com/pdf/CRRA08.pdf>.

³³ KPMG (October 2008). *KPMG International Survey of Corporate Responsibility Reporting 2008*. Retrieved February 16, 2010, from http://www.kpmg.com/SiteCollectionDocuments/International-corporate-responsibility-survey-2008_v2.pdf.

28. MMA Praxis Mutual Funds
29. Mn Services N.V.
30. Natural Investments LLC
31. Neuberger Berman Socially Responsive Fund
32. NH-CA Asset Management
33. Northwest & Ethical Investments L.P.
34. Oikocredit USA
35. Pax World
36. PGGM Vermogensbeheer B.V
37. PREVI - Caixa de Previdência dos Funcionários do Banco do Brasil
38. Progressive Asset Management
39. PT BNP Paribas Investment Partners
40. The Seventh Swedish National Pension Fund (AP7)
41. SNS Asset Management N.V.
42. Trillium Asset Management Corporation
43. United Methodist Church General Board of Pension and Health Benefits
44. Vancity Investment Management (formerly Inhance Investment Mgmt, Inc.)
45. Veris Wealth Partners
46. General Board of Global Ministries United Methodist Church

2010 Affiliated Supporters:

1. As You Sow
2. Association for Sustainable and Responsible Investment in Asia (ASrIA)
3. Bloomberg
4. CAER - Corporate Analysis. Enhanced Responsibility
5. Ceres
6. Eco-Frontier
7. Ethical Investment Research Services Ltd. (EIRIS)
8. Eurosif (European Sustainable Investment Forum)
9. FBDS – Brazilian Foundation for Sustainable Development
10. Indonesia WISE
11. KOCSR
12. Korea Corporate Governance Service
13. Korea Sustainability Investing Forum (KOSIF)
14. P.T. Minaca Selaras
15. Responsible Research
16. RiskMetrics Group
17. Shareholder Association for Research and Education (SHARE)
18. Si2
19. SolAbility
20. SUSTINVEST Co., Ltd

B. South Korean signatories to the Principles for Responsible Investment

(As of January 19, 2010)

Investment Manager Signatories

Allianz Global Investors Korea Limited
Ark Investment Advisors Inc.
Hana AIM Incorporated
Mirae Asset Investment Management Co., Ltd
Nonghyup CA Asset Management Co.
SH Asset Management Co.
Hyundai Investments, Co., LTD

Asset Owner Signatories

Korea National Pension Service (NPS)

Professional Service Partners

Eco Eye
Eco-Frontier
Solability Co. Ltd.
Sustainvest
Korea Corporate Governance Service (KCGS)
KOREA CSR Research Service(KOCSR)

Source: <http://www.unpri.org/signatories>

C. South Korean signatories to the UN Global Compact (as of Feb 2009)

72 active participants with over 250 full-time employees.

Amorepacific Corporation	Korea Housing Guarantee Co., Ltd
Bae, Kim and Lee LLC	Korea Hydro and Nuclear Power Corporation Co., Ltd
Bokwang Family Mart	Korea Land Corporation
Bow Industrial Co.	Korea Midland Power Co., Ltd.
Chin Hung International, Inc	Korea Minting and Security Printing Corporation - KOMSCO
CJ Corp	Korea National Housing Corporation
DaeBo Communication & Systems Corporation	Korea Plant Service and Engineering
Daegu Bank	Korea Power Engineering Company, Inc.
DAEWOONG Pharmaceutical Co, Ltd.	Korea Racing Authority
Design House	Korea Railroad Corporation
Environmental Management Corporation	Korea Resources Corporation
Hana Bank	Korea Securities Depository
Health Insurance Review & Assessment Service	Korea South-East Power Co.
Hynix Semiconductor Inc.	Korea Trade-Investment Promotion Agency
Hyundai Hysco	Korea Water Resources Corporation - K-water
Hyundai Mobis	Korea Western Power Co., Ltd.
Hyundai Motor Company	Korea Workers' Compensation & Welfare Service
Hyundai Steel Company	Korean Air
Incheon International Airport Corporation	KT
KB Kookmin Bank	Kumho Engineering and Construction
KIA Motors Corporation	Kyung-Hyang Shin Mun
Korea Agro - Fisheries Trade Corporation	Lotte Shopping Co., Ltd
Korea Airports Corporation	LG Electronics, Inc.
Korea Appraisal Board	LS Cable CO., Ltd
Korea Cadastral Survey Corporation	Munhwa Broadcasting Corporation - MBC
Korea Credit Guarantee Fund	Pulmuone Holdings Co., Ltd.
Korea Deposit Insurance Corporation	Samsung
Korea District Heating Corporation	Seoul Metro
Korea East-West Power Co., Ltd.	Shinhan Bank
Korea Electric Power Corporation	SK Energy Co., Ltd.
Korea Electric Power Data Network Co., Ltd.	SK Telecom
Korea Electric Power Industrial Development Co. Ltd	STX Corporation
Korea Environment & Resources Corporation	SungjinGeotec Co., Ltd.
Korea Gas Corporation	Sungjoo D and D Inc.
Korea Gas Safety Corporation	WoongjinCoway Co., Ltd.
Korea Housing Finance Corporation	Yuhan-Kimberly

Source: www.unglobalcompact.org

D. Main SRI-Themed Funds Managed in South Korea

Institution	Fund
Allianz Global Investors	AllianzG1 Corporate Value Improvement Fund
Alpha Asset Management	Global Eco-Tech Equity Fund
Dai Shin Investment Trust	Tomorrow Energy Equity Fund
	Dai Shin SRI Fund
	Dai Shin Global SRI Fund
	Dai Shin Global Warming Investment Fund
Deutsche Asset Management	Deutsche DWS Premier Agribusiness Equity Fund
	Deutsche DWS Premier Climate Change Equity Fund
Hana UBS Asset Management	Hana-UBS Global Innovators Fund
Hanwha Investment Trust	Hanwha Global Water Fund
	Hanwha SRI Equity Fund
	Hanwha Global New Energy Index Fund
	Hanwha SRI Sustainable Company Fund
Hungkuk Investment Trust Management	Hungkuk Smart Energy Fund
I Investment Trust	I Good Corporate Governance Equity Fund
IBK SG Asset Management	Good and Honest Company SRI Fund
KB Asset Management	KB Global Warming Theme Fund
KDB Asset Management	KDB SRI Fund
	KDB S&P Global Water Equity Fund
	KDB S&P Global Clean Energy Equity Fund
Korea Investment Trust Management Co.	Korea World-wide Water Equity Fund
	Better Corporate Governance Fund
	Mirae Asset Maps Global Alternative Energy Index Fund
Mirae Asset Management	Global Renewable Energy Fund
Plus Asset Management	Global Best 'Good World' Equity Fund
Samsung Investment Trust Management	Samsung Eco Fund
	Samsung Global Water Fund
	Samsung Global Alternative Energy Fund
Schroder Investment Management	Schroder ISF Global Climate Change Equity Fund
SH Asset Management	SH National Pension SRI Fund
	Tops Beauty Equity Investment Trust
	SH Tops Global SRI Equity Fund
	Tops Beauty Equity Investment Trust
Shin Young Asset Management	Shin Young SRI Equity Investment Trust Fund
Tong Yang Investment Trust	Tong Yang Great Company Fund
Woori CS Asset Management	Frontier Sustainable Company SRI Fund
	Future Energy Equity Fund

Source: ASrIA, Jan 2010 http://www.asria.org/portal/SRI_Fund/Korea