

## AUTHORITIES PLAN TO IMPROVE RULES REGARDING DIVIDEND IN LINE WITH GLOBAL STANDARDS

The FSC and the Ministry of Justice announced measures to improve rules regarding dividend to make companies' procedures for distributing dividends more consistent with international standards.

First, by issuing an authoritative interpretation on the Commercial Act and revising the Financial Investment Services and Capital Markets Act (FSCMA), authorities will make improvements to the current procedure for distributing dividends to enable investors to invest after checking dividend amounts to receive. Second, authorities will pursue diverse measures to induce voluntary and active adoption of the improved dividend distribution procedure from companies by revising and notifying the model articles of incorporation for listed companies, requiring companies to disclose whether they have adopted the improved dividend distribution procedure on their corporate governance reports, etc.

Authorities expect that these measures will help to alleviate factors contributing to the so-called "Korea discount," promote dividend investing and bolster companies' dividend payout ratios, and create an environment where more investors are encouraged to turn to long-term dividend investing for regular dividend income which will help to ease volatility in stock markets.

### **BACKGROUND**

Most companies in Korea designate shareholders who will receive dividends at the end of each year prior to determining dividend amounts at general shareholders' meetings held in the following spring. As a result, investors invest in companies without knowing how much they will receive in dividends, and they have no choice but to accept the decision on dividends that will be made a few months later.

These rules and practices, which discourage dividend investing of earning regular dividend income, remain inconsistent with global standards<sup>1</sup> and have been pointed out as a factor contributing to the so-called "Korea discount," an undervaluation of the Korean stock market by foreign observers.

<Comparison of Price Earning Ratios in Major Economies (Source: Bloomberg)>

Year	Korea	U.S.	UK	Germany	France	Japan
2017	11.1	22.2	24.1	19.5	18.3	16.2
2022	8.9	19.3	13.8	12.0	15.5	13.5

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<sup>1</sup> In major advanced economies such as the U.S. and France, companies decide dividend amounts first before choosing which shareholders will receive dividends, and companies in the UK disclose expected dividend amounts before making final decisions on dividend amounts.

Therefore, dividend investing in Korea has been referred to as “investing with blind faith” by foreign investors such as global dividend fund managers, who have undervalued dividend investing in Korea and made continuous requests<sup>2</sup> to improve the system.

The low level of predictability for dividends in domestic market as well as the lowest level of dividend payout ratio among the OECD economies stand in the way of creating an environment favorable for long-term investing, and thus, investors tend to focus on short-term, margin-hunting trading activities.

<Comparison of Dividend Payout Ratios\* in Major Economies (Source: Bloomberg)>

Year	Korea	U.S.	UK	Germany	France	Japan
2017	14.9	51.2	83.4	45.6	53.7	30.7
2022	20.1	40.5	45.7	40.8	39.3	36.5

\* Total amount of dividends paid out / current net income

Against this backdrop, the government authorities and relevant institutions<sup>3</sup> have prepared a set of measures aimed at improving procedures for distributing dividends to enable investors to make investment decisions after gaining information about dividend amounts.

## **MEASURES FOR IMPROVEMENT**

### **I. IMPROVING RULES REGARDING DIVIDEND**

#### **REGARDING FINAL DIVIDENDS (COMMERCIAL ACT)**

**(CURRENT STATUS)** In general, companies designate shareholders who will receive dividends at the end of the settlement period (usually end of December), but information about dividends and their dividend amounts are determined at a general shareholders’ meeting held in March the following year. As a result, at the time of designating shareholders who get to receive dividends (dividend record date), it is difficult to make predictions about dividends because information about dividend such as dividend amount is unavailable.

**(TO BE IMPROVED)** In line with global regulatory standards, authorities will improve the rules regarding dividend to enable companies to designate shareholders who will receive dividend payouts after they determine dividend amounts. In this regard, an authoritative interpretation is provided for Article 354 of the Commercial Act to allow companies to select a dividend record date separate from the record date for choosing shareholders who shall exercise the voting right<sup>4</sup> in order to enable companies to have their dividend record dates for deciding dividend amounts after

<sup>2</sup> MSCI Global Market Accessibility Review (June 2022), ACGA Corporate Governance Watch 2020 (May 2021)

<sup>3</sup> The Financial Services Commission, the Ministry of Justice, the Financial Supervisory Service, the Korea Exchange, Korea Securities Depository, Korea Listed Companies Association, KOSDAQ Listed Companies Association

<sup>4</sup> Currently, the last day of the settlement period is usually designated as the record date for choosing who gets the voting right and dividends in practice. However, a dividend is not a distribution of management performance in any given business year but the distribution of business outcome accumulated until that settlement period, so that there is no specific reason that the shareholders who are selected to receive dividends at the end of each settlement year should get dividend payouts.

choosing shareholders who will vote on dividend amounts.

## **REGARDING QUARTERLY DIVIDENDS OF LISTED COMPANIES (FSCMA)**

**(CURRENT STATUS)** Article 165-12 of the FSCMA currently prescribes that a listed company which sets a period for the settlement of accounts once a year may pay dividends to shareholders as of the last days of the third month, sixth month and ninth month (dividend record dates), respectively, by resolution (dividend amounts decided) of the board of directors within 45 days from the last day of each of the aforementioned months (currently, companies' dividend record dates come before their dividend amount decisions).

**(TO BE IMPROVED)** Authorities will revise the FSCMA to allow companies to decide dividend amounts before their dividend record dates for listed companies' quarterly dividend payout procedures. *(Introduction of revision bill in H1 2023)*

## **II. INDUCING IMPROVEMENTS IN COMPANIES' DIVIDEND DISTRIBUTION PRACTICES**

Authorities will seek diverse ways to induce listed companies to actively participate in the improvement of dividend distribution procedures in order to boost the effectiveness of the rules improvement.

- a) **(MODEL ARTICLES OF INCORPORATION)** As the implementation of the improved measures requires companies to revise their articles of incorporation, authorities will revise the model articles of incorporation for listed companies, which will reflect the improvement measures, and notify<sup>5</sup> them of the completion of the revision accordingly to get them use the model articles as a reference. *(In February 2023)*
- b) **(CORPORATE GOVERNANCE REPORT<sup>6</sup>)** Companies will be required to disclose information on whether they made improvements to their own dividend procedures in corporate governance reports in order to make investors easily check relevant information. *(From 2024)*
- c) **(DIVIDEND RECORD DATE)** As different companies may have different record dates, authorities will set up an integrated website providing information about listed companies' dividend record dates. *(Until Jan. 2024)*

## **ANTICIPATED EFFECT**

**(ESTABLISH VIRTUOUS CYCLE IN CAPITAL MARKET)** Authorities expect that the measures will promote more dividend investing as investors will be able to make investment decisions with the knowledge of dividend amounts. At the same time, companies are expected to make efforts to boost their dividend payout ratios as investors become more interested in dividends. As a result, the measures will help establish a virtuous cycle in Korean capital markets where the promotion of dividend investing will lead to the growth in dividend payouts by companies, which in turn will

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<sup>5</sup> Improvement measures regarding quarterly dividends of listed companies will be included after revising the FSCMA.

<sup>6</sup> Corporate governance structure reports, which disclose information about shareholder rights, structure and operating status of the board of directors and audit committee, independence of external auditor, etc., are filed by May 30 every year by KOSPI-listed companies that have KRW1 trillion or more in assets.

help to expand long-term investment aiming at receiving regular dividend income.

**(EASE VOLATILITY IN STOCK MARKET)** If companies' dividend payout ratios grow with more investors investing for dividends, it will promote long-term dividend investing instead of short-term, margin-hunting type of transactions, which will help to lower price volatility in stock markets and ultimately resolve factors contributing to "Korea discount."

**(ENHANCE MARKET EFFICIENCY)** An institutional foundation will be established for stock prices to more appropriately reflect investors' evaluation on companies' dividend decisions, which will enhance efficiency in our stock markets.

## **FURTHER PLAN**

**(IMPLEMENTATION)** Companies will be able to revise their articles of incorporation at upcoming general meetings of shareholders around March 2023 to change their dividend record dates and begin to apply the improved procedure of dividend distribution as early as 2024 (for dividends payable from the business year 2023).

**(SCHEDULE)** An authoritative interpretation of the Commercial Act regarding final dividends is provided immediately and a revision bill of the FSCMA regarding quarterly dividends will be introduced in the second quarter this year. The model articles of incorporation for listed companies will be amended in February and the guidance for corporate governance report will be revised and distributed in the first quarter of 2024. In February, authorities will make concerted efforts with relevant institutions in distributing documents of detailed guidance on revising articles of incorporation and holding an information session for listed companies in order to ensure a seamless transition by the improved measures.

<Implementation Schedule>

Type	Specific task	Schedule	Jurisdiction
Improvement measure	Issue an authoritative interpretation of the Commercial Act	Immediately	MOJ
	Introduce a revision bill of the FSCMA	Until Q2 2023	FSC
Key measure	Revise the model articles of incorporation <sup>*</sup> <small>* Items requiring a revision of the FSCMA will be included after FSCMA revision.</small>	In Q2 2023	Business associations <sup>7</sup>
	Revise the guideline on corporate governance report	In Q1 2024	KRX
	Set up website providing information on dividend record dates	Until Jan. 2024	Business associations
Follow-up action	Distribute information documents on improved dividend procedure and hold an information session	In Feb. 2023	Business associations
	Revise the enforcement rules of market disclosure regulations	In Q1 2023	KRX

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<sup>7</sup> Korea Listed Companies Association and KOSDAQ Listed Companies Association