

FSC INTRODUCES NEW INCENTIVE PROGRAMS FOR CORPORATE VALUE-UP PROGRAM

- A discussion was held on granting an exemption from mandatory designation of external auditor to companies that have been recognized for excellent governance structure (if exempted, an incentive will be given when making a selection for the Corporate Value-up Awards).
 - Since the introduction of an improved dividend distribution procedure in January 2023, 1,011 listed companies in total have revised their articles of incorporation reflecting the improved dividend distribution procedure.
 - For companies that have been awarded for their value-up efforts, there will be five more incentive programs for a total of eight different incentive programs in three areas.
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The Financial Services Commission held a meeting with relevant organizations and industry groups on April 2 and announced a set of new incentive programs planned for the Corporate Value-up Program.

At the beginning of the meeting, FSC Vice Chairman Kim Soyoung delivered opening remarks highlighting the purpose and significance of today's meeting. Vice Chairman Kim said that accounting and dividend are important mechanisms connecting companies to their shareholders and investors and that they are closely associated with the corporate governance structure. In this regard, Vice Chairman Kim said that accounting and dividend are also important for the success of the Corporate Value-up Program, for which there needs to be a proper balance in companies' financial and non-financial factors and shareholder returns. Vice Chairman Kim then outlined a few more incentive programs intended to promote corporate value-up.

EXEMPTION FROM PERIODIC EXTERNAL AUDITOR DESIGNATION REQUIREMENT

Under the current external auditor designation system, the Securities and Futures Commission (SFC), which is a subsidiary organization under the FSC, directly designates an external auditor for three years after companies have had their own choice of auditors for six years. This was first introduced with the Act on External Audit of Stock Companies, which became effective in November 2018 under a broad consensus for the need to overhaul the accounting system with aims to strengthen the autonomy of auditors.

However, it has been pointed out that this mandatory external auditor designation requirement has been an unnecessary burden for companies that already have an excellent internal audit process that is able to effectively monitor and check management practices. When this type of outmodedness in our companies' governance structure is pointed out as a reason for the problem of Korea discount, it is necessary to remove unnecessary burden and encourage companies to take self-driven efforts to improve their governance structure to ultimately boost their valuation. Thus, the authorities will seek to exempt companies from the periodic external auditor

designation requirement if they already have an excellent and effective corporate governance structure suitable for internal audit.

A corporate governance review committee made up of external authorities and third-party experts will be set up to evaluate and select companies that have excellent corporate governance structures. The companies being selected for excellent governance structure will be exempted from the external auditor designation requirement for a certain period of time after a deliberation from the SFC.

Companies that have been awarded for excellence in their value-up efforts will be able to receive extra points in the process of evaluating for excellent governance structure. The Corporate Value-up Program awardees may also receive a mitigation in penalties resulting from audit reviews.

Specific details about the evaluation standard and method as well as the method of exemption will be finalized after further consideration in the second quarter of this year. The exemption from the external auditor designation requirement is expected to take effect in 2025 after revising relevant regulations.

IMPROVEMENT IN DIVIDEND DISTRIBUTION PROCEDURE

The government unveiled a plan to improve listed companies' dividend distribution process in January 2023 to ensure that investors are able to invest in companies with the knowledge of how much they will receive in dividends before making investments.

Since then, the government and related organizations have introduced a revision to the model articles of incorporation for listed companies and held information sessions with companies to help them better understand about the improvement measure. In addition, the guidelines on corporate governance structure report have been revised to include a provision stating that companies need to make dividend distribution more predictable for shareholders to encourage participation from the companies that are required to submit corporate governance structure reports.

Following these reform efforts, 1,011 companies have made relevant changes to their articles on incorporation since last year, making up about 43 percent of the total of 2,381 companies. Among these companies, 322 of them are those that have made relevant changes to their articles of incorporation and distributing dividends according to the improved payout process. Out of 322 companies, 109 of them (or 34 percent) have already distributed dividends according to the improved measure.

<Status of companies making changes to their articles of incorporation>

	Total (A)	Completed in 2023	Ongoing in 2024	Total (B)	Ratio (B/A)
KOSPI	791	180	159	339	42.9%
KOSDAQ	1,590	601	71	672	42.3%
Total	2,381	781	230	1,011	42.5%

<Status of companies that made improvements to dividend distribution procedure>

	Aol revised in 2023	Aol revised in 2023 & dividend payout in 2024	Improved dividend distribution (B)	Ratio (B/A)
KOSPI	180	127	84	66.1%
KOSDAQ	601	195	25	12.8%
Total	781	322	109	33.9%

The government and related organizations will continue to engage with companies to promote improvement in the dividend distribution process and seek revision of the Financial Investment Services and Capital Markets Act (FSCMA) to ensure that the improved dividend distribution measure can also be adopted for quarterly dividends.

MORE INCENTIVES PLANNED FOR CORPORATE VALUE-UP PROGRAM

The government and related organizations decided to provide more incentives to encourage companies to actively participate in the Corporate Value-up Program. Under the Corporate Value-up Award Program that will start to operate from May next year, there will be five more new incentive programs for the awardees of a total of eight incentive programs in three areas as shown in the table below. The awarded companies will be eligible to receive (a) an exemption from the external auditor designation requirement, (b) a mitigation in penalties resulting from an audit review, (c) an exemption from KRX listing fees and annual dues, (d) an exemption from fees related to making changes to KRX listing status, and (e) a six-month postponement of sanctions resulting from dishonest disclosure.

<Eight incentive programs in three areas>		
	Incentive program	
Tax / Accounting	a) Five types of tax support programs	Announced Feb. 26
	b) Extra points granted when reviewing for exemption from the periodic external auditor designation requirement	<i>Newly announced</i>
	c) Mitigation in penalties resulting from audit review	<i>Newly announced</i>
Listing / Disclosure	d) Exemption from KRX listing fees and annual dues	<i>Newly announced</i>
	e) Exemption from fees related to making changes to KRX listing status	<i>Newly announced</i>
	f) Six-month postponement of sanctions resulting from dishonest disclosure	<i>Newly announced</i>
PR / Investment	g) Opportunity to participate in KRX's joint IR seminars	Announced Feb. 26
	h) Incentive of being included in the Korea Value-up index	Announced Feb. 26

Among the non-awarded companies, those that have demonstrated an active level of participation in their value-up disclosure and implementation efforts will receive extra points when making selections for outstanding disclosure companies and for the KOSDAQ Awards, as it was announced previously.

In addition, the government is actively considering ways to provide various tax support programs to help companies to boost valuations and increase shareholder returns.

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For press inquiry, please contact Foreign Media Relations at fsc_media@korea.kr.