Exercise of Ownership Rights by Investment Funds: Korea's Case

Korea Financial Investment Association

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1. Global Trends on the Exercise of Ownership Rights

- ERISA (Employment Retirement Income Security Act) (1974)

- ISC “Code on the Responsibilities of Institutional Investors (2009)”
  FRC “Stewardship Code (2010)”

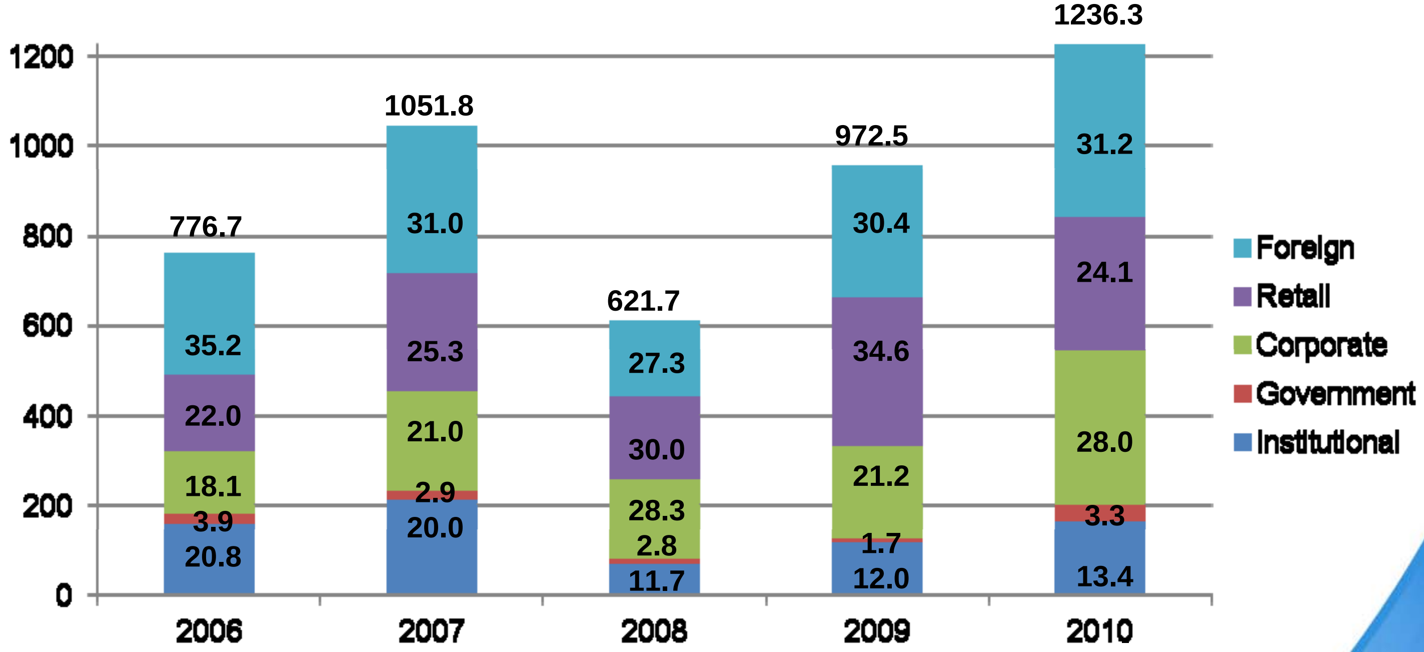
- SEC, Dodd-Frank Act (2010)

2. Korea's Case on the Exercise of Ownership Rights

- Institutional investors including the national pension fund held 13.4% of domestic stocks (end-2010)

Equity Ownership by Investor Type

(Unit: KRW Trillion*, %)



* Exchange rate: approx. KRW 1,050 = USD 1

2. Korea's Case on the Exercise of Ownership Rights

- The number of institutional investors that are major shareholders in corporations is increasing.

- Institutional investors own a 5% or higher shareholding in 22.6% of all listed companies

- As of end-2010, the National Pension owns a 5% or higher shareholding in 140 listed companies, with 10% being financial firms

2. Korea's Case on the Exercise of Ownership Rights

- In the past, shadow voting was prevalent, but after the 1997-98 Asian monetary crisis, the exercise of voting rights was liberalized
- While the National Pension exercises its voting rights relatively actively, other funds are passive

Voting Rights Exercised by Funds in Korea

(Unit: No. of Cases, %)

	2009		2010	
	Total Voting	Voted Down (Proportion)	Total Voting	Voted Down (Proportion)
National Pension	2,414	114 (4.72)	2,619	180 (6.87)
Other Institutional Investors	29,807	217 (0.73)	22,579	106 (0.47)

3. Move toward Encouraging Exercise of Ownership Rights

- Since the liberalization of the exercise of the voting rights, many debates have taken place in the academia and industry
  - Not led to any actual results

- Discussions over the National Pension's ownership rights were rekindled recently by the government's remarks
  - Chairman of the Presidential Council for Future and Vision emphasized that public pension funds should actively exercise their ownership rights

4. Debates on Exercise of Rights by the National Pension

- Government's control over corporations through the National Pension's exercise of ownership rights
  - Government's intervention in management

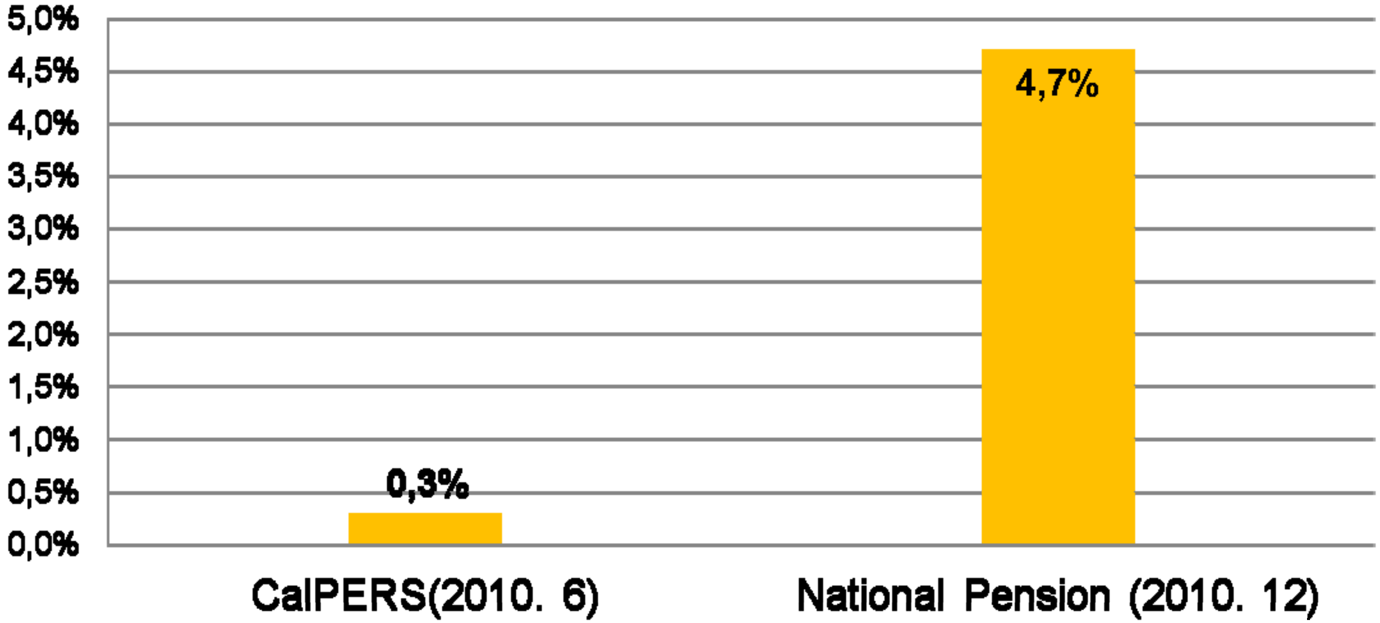
vs.

- The National Pension's fiduciary duty to the Korean population
  - Exercise of ownership rights, including voting rights, contributes to the enhancement of companies' values

5. Measures for a Compromise on the Debate

- National Pension's presence in Korea's equity market will grow
  - Increase equity investment from 23.2% (2010) to 30% by 2016

Comparison of Equity Market Participation



(Investment in Equity / Market Capitalization) x 100

- National Pension's Equity Investment USD 43 billion
- Market Capitalization USD 14,958 billion

5. Measures for a Compromise on the Debate

- How to ensure the National Pension's active exercise of ownership rights while maintaining its independence?
  - Establish a candidate recommendation committee for the National Pension Management Committee
  - Improve the current guidelines for the exercise of ownership rights and disclose such exercise of rights

6. Policy Directions Going Forward

- Government plans to revise the relevant laws and regulations to promote the active exercise of ownership rights

  - National Pension

    : Government will improve and make the guidelines more specific for voting up or down

  - Investment Funds

    : Revised Act will specify AMC's fiduciary duty

    : Specific guidelines for voting rights exercise to be established by KOFIA, the industry's SRO


Thank you!