# 2022 K-ESG Regulatory Outlook

In recent years, ESG factors have become increasingly significant among investors worldwide. Amidst this sweeping trend, some raised concerns on around 600 types of ESG assessment indicators, with many different scoring agencies which might slow the spread of ESG management. Such mixture of reporting frameworks adds to confusion for companies and investors. On December 1, the Ministry of Trade, Industry and Energy unveiled the "K-ESG Guideline," which will perform as an integrated guidance for companies and institutions. This article will explore the upcoming key regulatory issues that will have a significant impact on the investment strategy in 2022, altogether with the current regulatory landscape of Korea.

## 1. Disclosure Regulation

**a) Introduction of K-ESG Guideline:** The newly distributed K-ESG Guideline prepared 61 common and core points by analyzing 13 major domestic and foreign assessment indicators and disclosure criteria[1]. Reflecting the opinions of experts, specialized institutions, and relative ministries, the guideline presents assessment indicators that are most frequently dealt with by assessment agencies, and it is indeed optimized for Korean companies while meeting global standards. Fundamental items centered on global standards, partially used items in global standards or important items in the domestic system are classified as additional items. Moreover, 27 affordable items are sorted out for small and medium-sized companies.

**b) Revisions to Existing Disclosure Regulations:** In January 2021, the Financial Services Commission (FSC) announced initiatives to promote ESG responsible investing. ESG disclosure will become mandatory in phases: for KOSPI entities with assets over two trillion Korean won by the end of year 2025, and for all KOSPI entities by the end of year 2030. Meanwhile, the Korea Exchange (KRX) published a new ESG disclosure guidance for voluntary use. Also, the Korea Corporation Governance Service (KCGS) announced an amended version of the ESG Best Practice Guideline on August 5, 2021.

**c) K-Taxonomy:** In addition to the K-ESG Guideline, the Ministry of Environment released the K-taxonomy, a regulatory framework to foster sustainable investment according to the amended Environmental Technology and Industry Support Act. The taxonomy will allow financial market participants and authorities to assess whether certain economic activities are "sustainable," and thus put an end to the so-called greenwashing or overstatement of green credentials.

[1] DJSI, MSCI, EcoVaids, Sustainalytics, World Economic Forum, Global Reporting Initiative, etc.

## 2. Industry Trends

Major companies in the manufacturing and financial industries are proactively responding as they face bigger ESG challenges. In 2020-2021, many of them launched ESG committees under their boards: Samsung, Hyundai, LG, SK, Kakao, Naver, Korean Air Lines, Hanwha, Hyosung, CJ, LIG, Lotte, KB Financial Group, Woori Financial Group, IBK Group, and so on. In alignment with that, financial institutions introduced new "green" investment products, and SK, LG, Samsung, POSCO, and other steelmakers announced net-zero action plans. Also, an alliance called the "K-ESG Alliance," has been formed among the Federation of Korean Industries, global companies, and startups. This alliance runs a website, "ESG Tomorrow," which is expected to diffuse ESG-related information, including management cases.

In the announcement of the K-ESG Guideline, 25 enterprises and public entities were honored for managerial excellence in ESG. SK Telecom and Hana Financial Group were rewarded the Presidential Citation for comprehensive achievement—running an ESG committee, providing greater transparency, reducing greenhouse gas emission, offering aid for female workers, providing green financial services, supporting startups, for application of ISO 37301 (compliance management systems) and so on.

## 3. Legal Implications

First of all, the regulatory focus on ESG disclosure will require much more accuracy and thoroughness of ESG data. Mandatory ESG disclosure will become a key tool to meet the investors' growing calls for transparency. In that regard, the K-ESG Guideline is envisaged to be continuously developed. Also, the COVID-19 pandemic and rapidly changing global environment precipitated public awareness and social requirements on ESG, which have been growing much faster than legal requirements. Therefore, inaccurate ESG reporting may result in invasive public investigations and pose significant risks to a company.

Expert ESG risk assessment and systematic due diligence are vital. ESG-related uncertainties are hard to quantify, and substantial issues should be identified through expert assessment. ESG issues are dynamic, involving social requirements and investor pressure. These require coordination among all functional areas within a company. It implies that companies should employ systematic due diligence efforts until ESG is truly embedded in their corporate governance.


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