Voting Support Service "VoSS"

21st ACG Cross-Training Seminar

March 6, 2019, Woo-Kyung Ha
Adopting **Stewardship Code**

**NPS (National Pension Service)**
- Top institutional investor
- The world’s 3rd largest
- $560 billion in asset
- Holds 5% a stake (297 local firms)

The NPS has taken active step toward applying the code to raise expectation of enhanced rights for shareholders

**Shareholder’s rights**

**Opening of K-eVote & VoSS**

**Abolition of Mirror Voting (Shadow Voting)**
- Abolish in 2015.1
- Exceptional delay bill-2017.12

**General meeting of shareholders “Super Day”?**

- A number of listed companies holding shareholders’ meetings on the same day!!

- Shareholders’ meeting on the same day (2014)
  - Korea - 73%
  - USA -10.3%
  - British - 6.4%

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- $560 billion in asset
- Holds 5% a stake (297 local firms)

The NPS has taken active step toward applying the code to raise expectation of enhanced rights for shareholders

**Date of General meeting of shareholders 2018**

<table>
<thead>
<tr>
<th>Date</th>
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<td>3.16</td>
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KSD Overview: KSD Profile & Service Structure

Core Services

- Depository
  - Centralized Deposit
  - Corporate Actions Processing
  - Collective Investment Securities Deposit
  - Separate Safe Custody
  - Collection of Transaction Tax
  - Irregular Securities/CA Information Management

- Settlement
  - Exchange Settlement
  - K-OTC Settlement
  - Institutional Settlement
  - Collective Investment Securities Settlement

Value-Added Services

- Securities Financing Services
  - SLB Intermediary
  - Repo Service
  - Collateral Management

- Asset Management Support
  - Investment Fund Processing Platform (FundNet)
    - ETF/ETN Admin.
    - Retirement Pension Platform (Pension Clear)

- Global Securities Services
  - Foreign Securities Deposit & Settlement
  - Corporate Action Processing for foreign Investor
  - Local Custodian/DR/KDR

- Other Services
  - E-Voting
  - E-Proxy Solicitation
  - Voting Support System
  - LEI Issuance
  - Indenture Trustee
  - Securities Info Management
KSD Overview: KSD Profile & Service Structure

OVERVIEW

Deposit and Settlement

Participants 1,190 entities
Market Capitalization of Deposited Securities 3,829 trillion KRW
Cash Processing 34,956 trillion KRW

Asset Management Market
Subscription & Redemption 2,097 trillion KRW
Participants 518 entities

SAFE+
VoSS

KSD

[Image of buildings and financial icons]
Contents

01. KSD Overview
02. FundNet
03. K-eVote & K-eProxy
04. VoSS
05. Q&A
FundNet is an asset management industry platform providing automated processing of all fund operations via standard messaging among market participants.

“FundNet is a one-stop gate to service supporting the entire life cycle of Funds.”

A fund is created (subscription) by the investors' decision, grows through the trading and settlement of its assets by the asset manager, and is finally terminated (redemption) depending on its objectives.

KSD’s FundNet supports all back-office processes in the entire life cycle of funds through a single platform.
FundNet: Before and After FundNet

Before

- Low Reliability
- High Operational Risk
- Low Transparency
- High Cost, Low Efficiency

After

- High Reliability
- Low Operational Risk
- High Transparency
- Low Cost, High Efficiency
“FundNet connects all asset management market participants”

As a central hub linking these fund market players, FundNet facilitates smooth communication among participants.
Contents

- KSD Overview
- FundNet
- K-eVote & K-eProxy
- VoSS
- Q&A
K-eVoting and K-eProxy

- **K-eVoting**
  Shareholders exercise voting rights online without attending the general meeting of shareholders

  **Voting by Electronic Means (Commercial Act : Article 368-4)**
  A company may determine that a shareholder may exercise an *absentee vote* by *electronic means*, through a *resolution of the board of directors*.

- **K-eProxy**
  Shareholders can grant proxies online to proxy solicitors

  **Method of Delivering Proxy Forms (Enforcement of Capital Market Act : Article 160)**
  Making use of website
K-eVoting and K-eProxy: History

- '10.1-7 Development of K-evoting System
- '10.8 Opening of K-eVote
- '14.10-12 Development of K-eProxy System
- '15.1 Opening of K-eProxy
- '15.1 Abolition of Shadow Voting
- '17.12 Opening of mobile K-eVoting
Foreigners can’t vote through K-eVote, since the Enforcement of Commercial Act stipulates that shareholders shall use their official digital signature to exercise voting rights by electronic means.

Service fees are charged to corporations on the basis of capital and number of shareholders.
"Best quality of security in E-voting system"

**Regulations**
- Privacy Act
- IT security regulations
- IT security audit

**Physical**
- National security facilities
- Back-up system
- Disaster Recovery Plan

**Technical**
- Real-time monitoring system
- Privacy encryption
- User authentication

**Software**
- Secure coding
- Mock hacking test
- Vaccine
Contents

01 KSD Overview
02 FundNet
03 K-eVote & K-eProxy
04 VoSS
05 Q&A
Step 1. Global Issue
- Responsibilities of Institutional Investor
  “Stewardship Code”

Step 2. Declare Guideline
  for Asset Management Company
- Korea Financial Service Commission:
  ‘Guideline for Asset Management Company’
  - Feb. ’08, In order to enhance the duty of report for institutional investor’s voting rights

Step 3. Exercising Voting Rights
  “Still passive”
- Decrease of asset management company’s voting right exercising

Step 4. Enforcement Decree
  ‘Duty to be faithful’
- Korean Stewardship Code Plan (’14.11)
  - Explicit definition by the Law to protect the Investor’s benefit

Lack of will
- Insufficiency of working environment

- Decrease of asset management company’s voting right exercising:
  
<table>
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<tr>
<th>Year</th>
<th>Voting Rights</th>
</tr>
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<tbody>
<tr>
<td>2008</td>
<td>5,823</td>
</tr>
<tr>
<td>2010</td>
<td>3,394</td>
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<tr>
<td>2012</td>
<td>3,022</td>
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VoSS: Structure

- **FundNet (VoSS)** provides the quantity of the ‘Voting rights’ and the Shareholder’s Meeting Schedule via fund ledger and securities information.

- The **Proxy Advisory** can upload the analysis on the general meeting agenda items reports on the **Voss** - 6 Proxy Advisories in Korea.

**VoSS** (Voting Support Service)

- Information about Exercising Voting rights
- Analysis on Agenda for Shareholder Meeting
- Exercise Voting rights
- K-eVote & K-eProxy
- Securities Information
- Proxy Advisory
- Issuers

**FundNet (VoSS)**

- Fund A
- Fund B
- Fund C
- Fund D
"Goal" To support the exercising of electronic voting rights via FundNet

**Synchronization**
Providing same environment as individual shareholders

**Customization**
Providing customized service to each asset management company

**Clarification**
Establish the responsibility and the function between FundNet and K-eVote

**K-eVote & K-eProxy**
For all Shareholders
- Electronic Voting Information
- **Electronic Voting Exercising**
- Electronic Voting Conclusion

**VoSS** (Voting Support Service)
For Asset Management Company
- Electronic Voting Information
- Electronic Voting Conclusion

**Expectation**
- Convenience of Exercising Voting Rights
- Vitalizing Electronic Voting
- Increase Social Benefit (Improve corporate governance)
Future...

<table>
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<tr>
<th>Market</th>
<th>Institution</th>
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| ♦ For Issuers,  
  Function improvement  
  Consulting on general meetings | ♦ E-voting as a mandatory method of general meetings |
| ♦ For shareholders,  
  Easy access, Useful information | ♦ Amendment of E-voting record during the period |

<table>
<thead>
<tr>
<th>Global</th>
<th>Technology</th>
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| ♦ Vote through K-eVote  
  ♦ Cooperate with foreign agency | ♦ Mobile-friendly system  
  ♦ Advanced user authentication  
  ♦ Block-chain technology |
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