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TRANSPARENCY INTERNATIONAL-KOREA

TRANSPARENCY IN CORPORATE REPORTING :

ASSESSING SOUTH KOREA'S LARGEST COMPANIES

Transparency International is the global civil society organization leading the fight against corruption. Through over 90 chapters worldwide and an international secretariat in Berlin, Germany, we raise awareness of the damaging effects of corruption and work with partners in government, business and civil society to develop and implement effective measures to tackle it.

Transparency International – Korea (TI-Korea) was founded in 1999 with an office in Seoul, South Korea.

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This report is available in Korean and English language editions. Both copies can be downloaded as PDF at: ti.or.kr/xe/ (Korean) www.transparency-korea.org (English)

The Transparency International Secretariat's support team has guided us and offered advice on the methods of this study.

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Transparency in Corporate Reporting (TRAC)

On a scale of 0 to 10, 0 indicates the least transparent item and 10 the most transparent. The overall index is based on the un-weighted average of results in all three dimensions.

ACP = Anti-Corruption Programmes results for reporting

OT = Organizational Transparency results (esp. subsidiaries and ownership interests)

CBC = Country-by-Country reporting of financial information results

Diagram 1: Overall index results on Korean companies' corporate transparency reporting

The diagram shows the overall index for the results on transparency in corporate reporting.

			ACP%	OT%	CBC%					ACP%	OT%	CBC%
1	KEPCO	**6.7**	92	88	20		26	Samsung Life Insurance	**4.2**	58	69	0
2	POSCO	**6.0**	100	81	0		27	LG U-Plus	**4.2**	50	75	0
3	LG Display	**5.7**	88	81	0		28	KOGAS	**4.2**	81	44	0
4	LotteShopping	**5.5**	85	81	0		29	Samsung Elect.	**4.1**	42	81	0.28
5	SK Innovation	**5.4**	62	81	20		30	KT Corporation	**4.1**	42	81	0
6	S-Oil	**5.4**	73	88	0		31	SK Holdings	**4.1**	42	81	0
7	Kia Motors	**5.3**	77	81	0		32	Lotte Chemicals	**4.1**	54	69	0
8	LG Chemicals	**5.2**	69	88	0.00		33	E-Mart	**4.1**	42	75	5.00
9	Hyundai Heavy Indus.	**5.1**	73	81	0.00		34	Korean Airline	**4.0**	50	69	0.72
10	Daewoo Shipbuilding	**5.0**	69	81	0.00		35	Shinhan Financial Group	**3.9**	81	38	0
11	Doosan Co.	**4.7**	54	88	0.00		36	Industrial Bank of Korea (IBK)	**3.9**	54	63	0
12	LG International	**4.7**	54	88	0.00		37	NongHyup Financial Group	**3.6**	77	31	0
13	SK Telecom	**4.7**	65	75	0.00		38	LS Corp.	**3.6**	27	81	0
14	LG Electronics	**4.7**	58	81	0.74		39	Samsung C&T	**3.6**	58	50	0
15	Hyundai Glovis	**4.6**	58	81	0.00		40	KB Financial Group	**3.6**	69	38	0
16	Hyundai Fire & Marine Ins.	**4.6**	54	75	10.00		41	CJ Cheil Jedang	**3.2**	27	69	0
17	Doosan Heavy Industries	**4.6**	69	69	0.00		42	SK Hynix	**3.1**	31	63	0
18	POSCO Daewoo Corporation	**4.4**	58	75	0.00		43	Hanwha Life Insurance	**3.0**	27	63	0
19	Hana Financial Group	**4.4**	58	69	5.00		44	Hyundai Mobis	**2.9**	69	19	0
20	Samsung Heavy Indus.	**4.3**	62	69	0.00		45	GS Caltex	**2.9**	50	38	0
21	Hyundai Engineering	**4.3**	42	88	0.00		46	Hanwha Corp	**2.9**	23	63	0
22	Woori Bank	**4.3**	54	75	0.00		47	CJ Corp.	**2.8**	4	81	0
23	Hyundai Steel	**4.3**	35	94	0.00		48	Hyundai Motors	**2.5**	46	19	9.50
24	SK Networks	**4.2**	46	81	0.00		49	Hyosung Corp.	**2.5**	12	63	0
25	Samsung Fire & Marine Ins.	**4.2**	58	69	0.00		50	KDB Bank	**2.3**	58	13	0

HIGHLIGHTS

1 Company
Only POSCO achieved a full score of 100% in the anti-corruption programme category

9 Companies
Only 9 out of 50 companies reported their financial information on a country by country basis

1 Company
Samsung Electronics is the only company that was also included in the Global Transparency in Corporate Reporting (TRAC) study 2014, scoring 4.1 in this report[1] as compared to a score of 2.9 it achieved in the Global TRAC 2014

Study Comparisons

Categories/Dimensions	Global TRAC	EMM TRAC[2]	Korean TRAC
Overall index result	Average: 3.8/10	Average: 3.6/10	Average: 4.2/10
Anti-Corruption Programmes	Average: 70%	Average: 46%	Average: 56%
Organizational Transparency	Average: 39%	Average: 54%	Average: 69%[3]
Country-by-country	Average: 6%	Average: 9%	Average: 1.42%

Based on the chart above, the average index score for Korean companies is 4.2 out of 10. Korean companies/entities achieved a high score in the Organizational Transparency dimension when compared to the Global TRAC. On the other hand, Korean companies assessed in this study scored lower in both the Anti-Corruption Programmes and Country-by-County reporting dimensions when compared to the Global TRAC.

Top Korean companies still lag behind their global counterparts when it comes to disclosing information regarding their anticorruption policies and programmes. The average index score of 56% in this dimension shows that

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[1] Korean companies report their information on the DART System, which is a repository of Korea's corporate data accessible by the public, investors or other users. The system is supported by the Korean government through legislation called *Enforcement Decree of the Financial Investment Services and Capital Markets Act.*

[2] Transparency in Corporate Reporting: Assessing Emerging Markets, 2013 (EMM TRAC 2013).

[3] Please, see explanations for this score at section V. Reporting Organizational Transparency.

approximately half of the companies assessed in this study are falling short of disclosing relevant information on their anticorruption policies and programmes. This suggests there is room for substantial improvement in this dimension.

Korean companies seem to disclose more information regarding their organizational structures. The possible rationale behind this is the existence of legislation [4] in South Korea requiring large companies to provide information on organisational structures to the government and making it public.

Companies assessed in this study scored the lowest (1.42%) in country by country reporting category. This score was also the lowest when comparing the Korean companies to global companies or multinational companies from the emerging markets. In Korea, there is no particular policy or legislation that obligates companies to report financial information such as their revenues, taxes paid and community contributions on a country by country basis.

[4] See http://www.fsc.go.kr/eng/lr/list03.jsp

I. EXECUTIVE SUMMARY

The key objective of this study is to encourage companies to disclose more anti-corruption related information to the public in order to minimise corruption risk and boost corporate status.

This report tracks companies' disclosure practices, but does not ascertain whether any company is either corrupt or not. Although comprehensive reporting can contribute to better anti-corruption policies and practices, it does not guarantee that a company is corruption free.

The top 50 Korean international companies being studied and described here are based on Fortune Korea's ranking of the top Korean companies in South Korea in November 2014. Only companies with significant international operations have been selected for this study. These companies, all of which have headquarters in South Korea, are running businesses related mostly to technology, manufacturing, construction, and electronics.

This study employs the same methodology used by Transparency International in its 2014 report on the world's largest companies.[5] The questions are aimed at measuring transparency and levels of disclosure for each company across three dimensions mentioned below.

1. Anti-corruption Programmes (ACP)
2. Organizational Transparency (OT)
3. Country-by-Country Reporting (CBC)

Diagram 1 above shows the overall index of results. The list of Korea's top 50 international companies is shown in **Annex 4**.

Overall, the findings of this study show that there is much room for improvement regarding disclosure of information by Korean companies when measured across the three dimensions mentioned above.

Reporting on Anti-corruption Programmes

The average score achieved by the companies in this dimension is 56%. Among the three dimensions, this is the second area where most companies achieved satisfactory scores. While this indicates a positive commitment to anti-corruption activities, further progress needs to be made. Here are some of the most significant areas in which companies can be more transparent:

- Communicating a "zero tolerance" policy for any form of corruption at all levels
- Disclosing more information regarding anti-corruption training and

[5] *Transparency in Corporate Reporting: Assessing the World's largest Companies, 2014.*

monitoring activities
- Asking suppliers to comply with the companies' anti-corruption and ethics guidelines
- Clear statements on anti-corruption from CEOs and senior leaders of companies
- Committing to and communicating a policy prohibiting facilitation payments
- Clarifying whether all agents and intermediaries both in Korea and abroad are covered by the companies' anti-corruption policies and codes

Organizational transparency

Most companies in this study score the highest in this dimension. The explanation behind this high average score is due to the Korean government's legislation that compels the disclosure of all subsidiaries (*Enforcement Decree of the Financial Investment and Capital Markets Act*).[6] The legislation compels companies, especially the largest conglomerates, to report their financial information and other data of their companies on a regular or annual basis and this information is made publically available.

Country-by-country reporting

Companies assessed in this study fared most poorly in reporting on information on a country by country basis. Most companies disclose little or no financial reports for their operations in each country they have branches in. Financial reports tend to be few and far between and thus limited to all but a few countries. Most reports are done regionally and some are limited to specific countries such as the USA and China.

Recommendations

In Korea, the public and the civil society have access to limited information regarding the measures put in place by companies to reduce the risk of corruption. With more transparent reporting, all stakeholders including shareholders, ordinary citizens or civil society organisations can learn further about how global companies operate and hold them accountable in case of noncompliance.

To all Korean companies operating internationally:

- Establish a comprehensive and informative website that carries most up to date information regarding the company's anticorruption programmes and policies with links to key documents such as annual reports, codes of conduct, whistleblower protection policies, etc. (esp.

[6] http://www.fsc.go.kr/eng/lr/list03.jsp

in one of the UN languages, e.g. English, Spanish, etc.)
- Encourage the reporting of corruption to company's employees and clearly communicate the anonymity of whistleblowers and confidentiality of information received
- Proactively disclose a complete roster of all subsidiaries, partners, associated businesses and joint ventures
- Disclose the countries of operations for company's non-fully consolidated holdings
- Publish financial reports per country of operation

To the Korean government, regulators and policy-makers

- Enhance the enforcement of regulation requiring Korean companies to disclose all their subsidiaries, partners, associated businesses and joint ventures
- Introduce legislation requiring all companies to regularly submit publically available country-by-country financial reports

To investors and investor groups:

- Require companies to include transparency and accountability information for the purpose of making informed investment decisions

To financial and rating analysts:

- Financial, securities, research, equity and investment analysts must focus on a company's transparency and anti-corruption programmes

To civil society and non-governmental organizations:

- Individual activists and civil society organizations must locally monitor international companies

To the media, reporters and journalists:

- Report reliable information to the public and the government by exposing corrupt practices of multinational companies and by supporting good practices of such companies

II. INTRODUCTION

Corruption is a major risk factor in business. It can damage reputations, lead to the loss of contracts, result in lawsuits and other criminal sanctions. Furthermore, corruption is detrimental to innovation, entrepreneurship, market mechanisms and economic stability.

Many Korean companies included in this study are major actors in international markets, contributing to economies and influencing the lives of many individuals. Given this expanding sphere of influence Korean companies should abide by global best practice standards of transparency regarding disclosure of information on their anticorruption efforts. For that reason, the purpose of this study is to encourage the top companies to be more transparent and accountable. Transparency is one of the best solutions and is indispensable in detecting and removing corruption not only in business, but in all sectors of society.

The aim of this report is to track the disclosure practices of 50 top Korean companies. It is important to note that it does not establish whether or not individual companies are corrupt. Comprehensive reporting contributes positively to the improvement of anti-corruption policies and practices albeit not guaranteeing a corruption-free environment.

To support the drive against corrupt practices in business in Korea, two anti-corruption laws have already been implemented. The first one, the Foreign Bribery Prevention in International Business Transaction Act ("FBPA"), was enacted in 1998 and was established to abide by the OECD Anti-Bribery Convention[7]. The FBPA punishes any person who offers or promises a bribe to any foreign public official.

The second one is the Korean Criminal Code (or the "Criminal Code"). Distinctively, the Criminal Code can only punish individuals and not corporate entities. This code also covers only domestic bribery cases, especially those among public officials. Private commercial bribery actions are also covered by this code.

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[7] OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions

BOX 1. Foreign Bribery Prevention in International Business Transaction Act (FBPA)[8]

Foreign bribery in South Korea is fundamentally regulated by the government's Foreign Bribery Prevention in the International Business Transactions Act (or "FBPA"). FBPA was enacted in 1998 with the aim of implementing the OECD Convention on Combating Bribery of Foreign Public Official in International Business Transactions (the "OECD Anti-Bribery Convention").

Under the articles of the FBPA, an individual who provides promises or offers a bribe to a foreign government official can be punished. However, the Korean jurisprudence still debates whether a corporate entity can be punished as a principal of a crime. At present, a corporate entity cannot become a principal of a crime except when vicarious liability is specifically provided for in criminal law.[9]

Transparency International published its first study assessing the reporting practices of the world's largest companies in 2012. The study was carried out again in 2014. Similar global studies focused on emerging market multinationals (2013), and, most recently on global players in the telecommunications sector (2015) have also been published. This is the first time such a TRAC study is being conducted in South Korea. The companies covered in this study have businesses in over 160 countries and total market values ranging in billions of US dollars.

In this study companies are assessed based on the information they provide online on their anti-corruption programmes, organizational structures and on country-by-country reporting of financial matters. Making such information available to all stakeholders[10] and the general public will lead to everyone becoming better informed and able to make proper decisions and judgments based on the information they have on any given company.

Disclosing relevant company information and regularly reporting comprehensive data that helps minimise corruption is one good practice in curbing corruption and bribery. This is without a doubt a win-win approach that can boost a company's reputation and gain the trust of consumers and various stakeholders alike.

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8 http://kimchang.com/UserFiles/files/Anti-CorruptionRegulation.pdf

9 http://www.shinkim.com/ upload_files/ data/ABA-Anti-BriberyLaws inKoreaand TheirDistinct Characteristics.pdf

10 Stakeholders refer to various groups or individuals such as investors, civil society organizations, economic analysts, investors, etc.

III. METHODOLOGY

Shortened as TRAC, Transparency in Corporate Reporting is one of TI Korea's approaches in highlighting corruption issues in the private sector. Corporate transparency is not the sole solution for battling corruption, but it is critical in preventing opportunities for corruption. Reporting holds companies accountable for any shortcomings they may have.

For this study, a sample of the 50 biggest Korean companies was chosen from Fortune Korea's list published in 2014. They were selected on the basis of their market value. These companies have major international operations in over 160 countries. The data collection period for this study was from August to September 2015 wherein all documents and links available through companies' websites were used to score the companies across three dimensions of corporate transparency. The preliminary results were shared with the companies at the end of September 2015. They were given a two-week period from September 28 – October 9 to review and respond to their results. Ten (10) out of the 50 companies provided feedback during this review period. Companies may have published new and relevant information on their website after this review period, however, they are not considered towards scoring.[11]

In this study, companies are assessed across three dimensions of corporate transparency based on a total of 26 questions:

- Thirteen questions regarding each company's anti-*corruption programmes are asked.*[12] The questions basically ask about the existence or non-existence of company policy on corruption. There are also ethics-related questions.

- Eight questions are on organizational *transparency*. The questions relate to the companies' transparency of their related subsidiaries, partner entities, associated companies, joint ventures and other holdings.

- Five questions involve country-*by-country reporting*. The five questions fundamentally ask companies to provide financial information including revenues, taxes and community contributions

[11] For example, Doosan Company has published more information on its website after our survey period and was actively responding to our methods for clarification.

[12] The 13 questions are based on the *Transparency International-UN Global Compact Reporting Guidance on the 10 principle against Corruption* available at: https://www.unglobalcompact.org/docs/issues_doc/Anti-Corruption/UNGC_AntiCorruptionReporting.pdf

at the country-level.

Data Collection and Analysis

The data collected from the companies' websites are based on their annual reports for 2014 (some from 2013). Other relevant information from their web pages and related links were also considered for scoring purposes. All information collected and used in this study is accessible to the public. Prior to the start of the study, all companies were also informed of the study and the methodology used in this assessment.

Among the 50 companies, 10 companies offered clarification or further publicly accessible materials that we may have missed during the review period. Their feedback and materials were examined and where appropriate scores were revised. The companies' participation is highly appreciated and important in creating quality results for this study.

See more information on methodology in **Annex 1** of this report.

Ⅳ. TRANSPARENCY OF ANTI-CORRUPTION PROGRAMMES

100%

Highest performing:
POSCO

56%

The average

4%

Lowest performing:
CJ Corp.

IV. TRANSPARENCY OF ANTI-CORRUPTION PROGRAMMES

Highest performing: POSCO 100%
The average: 56%
Lowest performing: CJ Corp. 4%

Establishing and implementing an anti-corruption programme can be seen as the first line of defense against corruption for any company. For a company, a transparent anti-corruption programme not only constitutes a defense tool against corruption but also contributes to improved ethical behavior amongst its leaders, employees, business partners, agents, suppliers and other related parties.

The *Transparency International-UN Global compact reporting Guidance on the 10th Principle against Corruption*[13] offers businesses straightforward recommendations regarding the key elements of their anti-corruption programmes that they should publish.

Is reporting on anti-corruption programmes meaningful?

Many argue that publicly reporting anti-corruption programmes on companies' websites is not the same as actual compliance. However, there are good reasons why reporting such programmes prove beneficial:

- Reporting anti-corruption programmes constitutes a public commitment and acts as a force for complying with these programmes
- Public commitments make companies accountable to its stakeholders and to the general consumers
- Transparent anti-corruption programmes & ethics practices promote proper behavior among company leaders, employees and relevant parties
- Legal and reputational risks arise if companies publish false public statements indicating their commitment to transparency (*Enforcement Decree of the Financial Investment Business and Capital markets Act.pdf*)[14]
- It is easier for the public to monitor or detect discrepancies between company commitments and real practices

Although public reporting on anti-corruption programmes cannot be equated

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[13] This business tool is based on the *Business Principles for Countering Bribery*. See: www.transparency.org.

[14] See: http://www.fsc.go.kr/eng/lr/list03.jsp

with actual practice, reporting does focus the attention of companies on their practices and drives improvement.

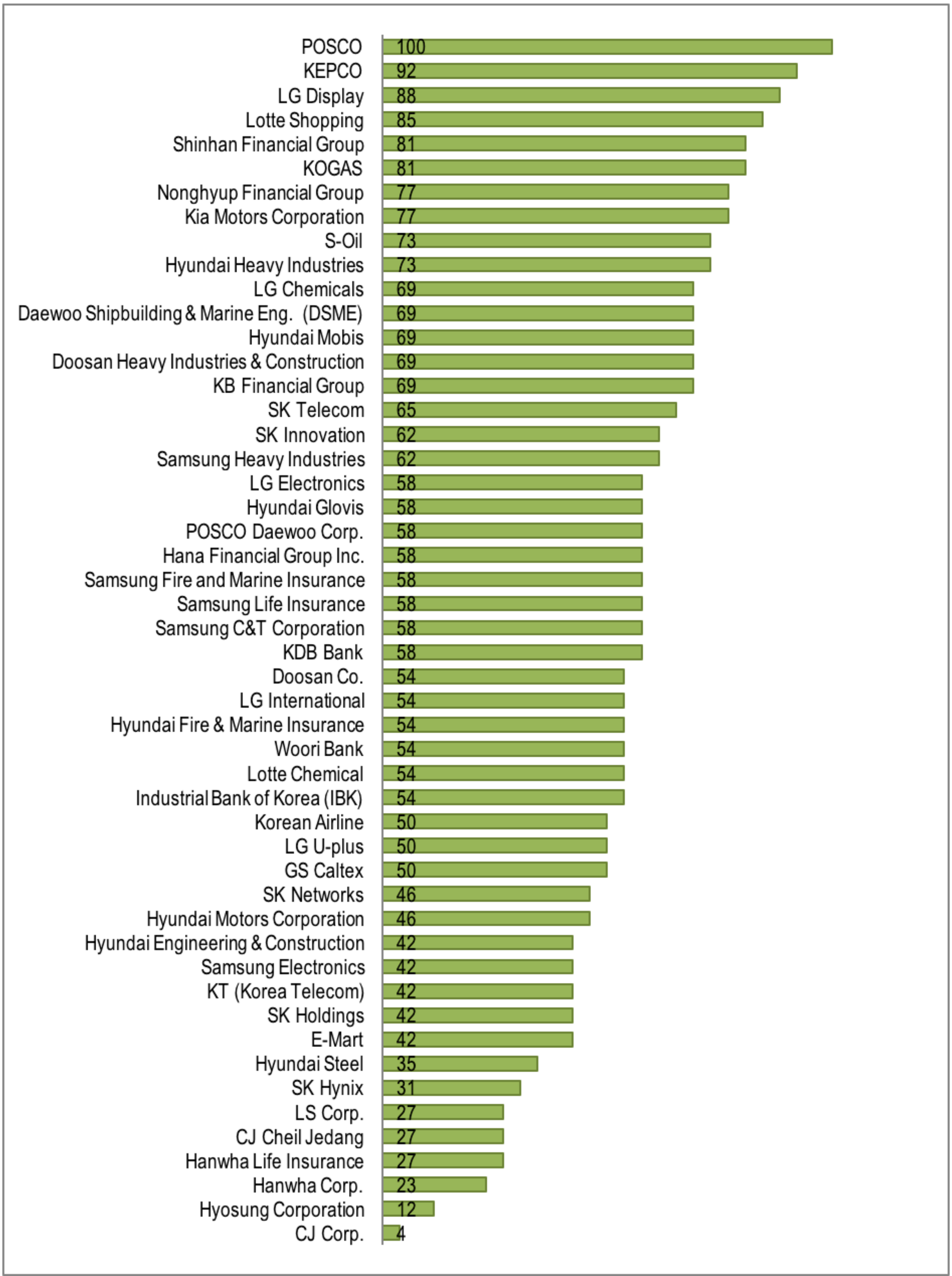
Company Results

Diagram 2, below, shows companies' results for the questions belonging to the first dimension – *Reporting anti-corruption programmes*. The diagram lists the score range from the highest to the lowest.

Korean companies achieved an average score of 56% in this dimension. This average score is lower in comparison to the result of the global TRAC survey[15]. As a developed OECD country with a leading economy and major global companies, South Korea can be expected to do much better than this score. Korean companies must be able, at a minimum, to keep up with global multinational companies and not lag behind them.

[15] Global TRAC, 2014, p.8.

Diagram 2: Transparent Anti-corruption Programmes (ACP)



Two companies achieved scores over 90% (92% for KEPCO and 100% for POSCO), with 33 companies out of 50 scoring over 50% in this dimension. LG Display, Lotte Shopping, KOGAS and Shinhan Financial all achieved scores over 80%. The rest of the 15 companies lagged further behind with scores below 50%.

It should be noted that a number of companies updated their websites' contents during the research period. We took this into account when reviewing their scores. However, any updates made after the company review period were not included.

V. REPORTING ON ORGANIZATIONAL TRANSPARENCY

94%

Highest performing: Hyundai Steel

69%

The average

13%

Lowest performing: KDB Financial

V. REPORTING ON ORGANIZATIONAL TRANSPARENCY

Highest performing: 94% Hyundai Steel
The Average: 69%
Lowest performing: 13% KDB Financial

"Organizational transparency allows citizens to hold companies accountable for the impact they have on their communities" ***Global TRAC 2014, p.22***

Large multinational companies operate as complex networks of interconnected entities. These include subsidiaries, affiliates or joint ventures controlled to varying degrees by the parent company. These entities can be registered and operate in several countries including jurisdictions that serve as tax havens. If companies choose not to disclose these structures it can be difficult to identify them and understand their relationships.

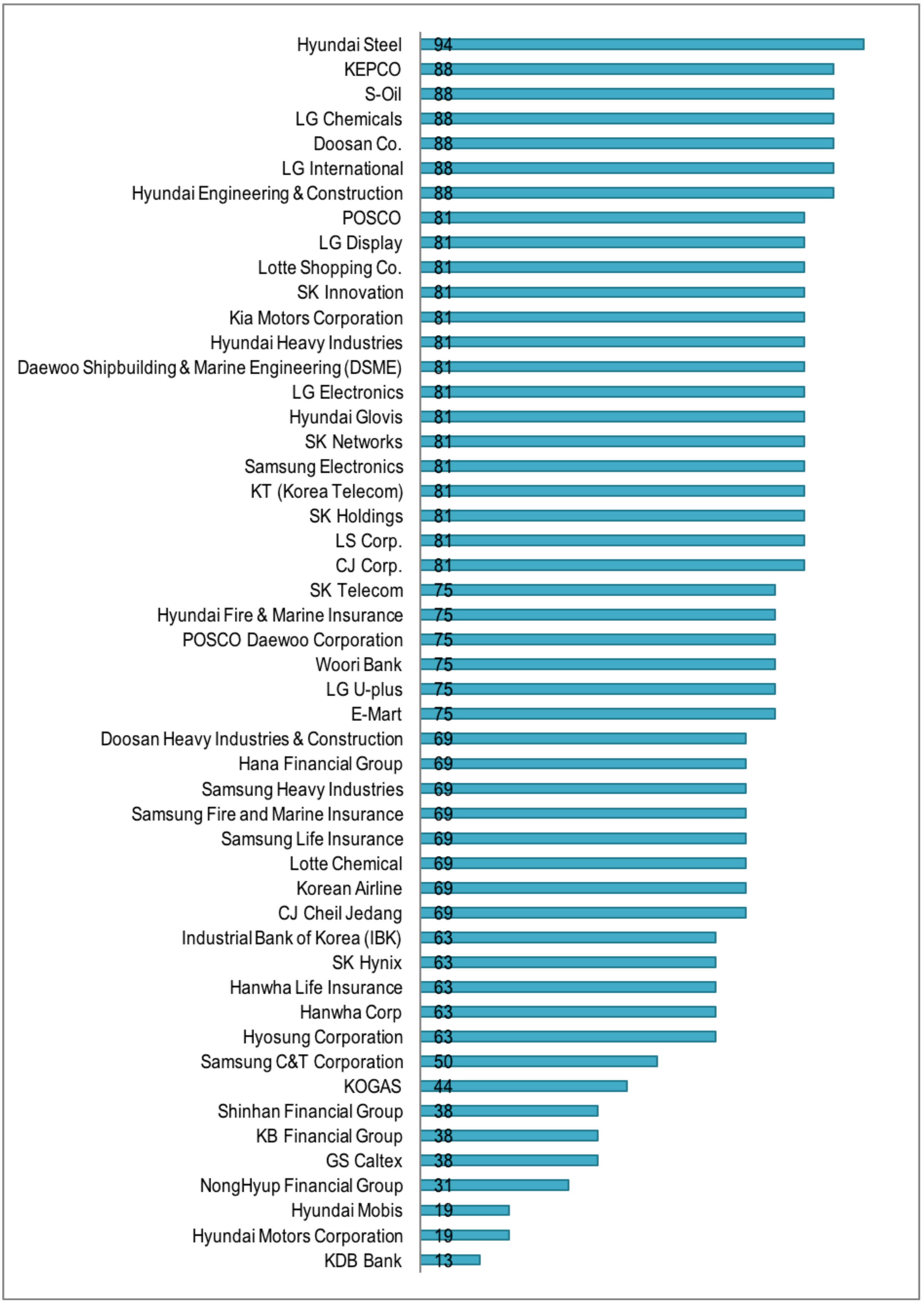
Oragnisational transparency fundamentally allows local stakeholders to know which companies are operating in their territories, are bidding for government licenses or contracts or have received any favourable tax treatment. Through full disclosure of corporate holdings all stakeholders can gain complete knowledge of financial flows such as intra company transfers and payments to governments.

The questions asked in this dimension cover the names, ownership rates, countries of incorporation and countries of operations of subsidiaries, associated businesses, joint ventures and other holdings of the parent company.[16]

The company scores for this section can be seen in **Diagram 3**

[16] See definitions of terms in Annex 3.

Diagram 3: Results for reporting organizational transparency (OT)



The companies included in this study scored highest points in organisational transparency dimension when compared to reporting on anticorruption policies or country by country reporting. The companies achieved an overall average of 69%. One possible reason behind such a high score is that Korean companies are compelled by national law to report their respective company information to the DART System (Data Analysis, Retrieval and Transfer System).[17]

The highest score was achieved by Hyundai Steel with 94%. There are 21 companies that achieved a score within the range of 81 to 88%. The 88% achievers include: KEPCO, S-Oil, LG Chemicals, Doosan Company, LG International, and Hyundai Engineering & Construction.

Twenty companies scored between 50 and 75%, and the remaining 8 companies earned less than 50%. Although the companies achieved an average of 69% percent in this dimension, there is still room for improvement, especially among companies that achieved below 50%.

The companies can easily fulfill these requirements by publishing the information they have on all their subsidiaries for greater transparency. TI Korea also encourages the Korean companies to report publicly extensive lists of their holdings through company websites.

One area where companies can improve is better disclosure of countries of incorporation and countries of operation of their fully consolidated and non-fully consolidated subsidiaries.

[17] DART System is a system that allows companies to disclose their information online, which can be accessible to the general public, investors and other users. Please, note that the information uploaded in English by some companies are quite limited compared to the exhaustive information submitted by Korean companies in Korean language. http://englishdart.fss.or.kr/about/engAbout1.do

VI. COUNTRY-BY-COUNTRY REPORTING

20%

Highest performing:
20% (KEPCO, SK Innovation; only 9 companies achieved scores but below 50%)

1.42%

The average

0%

Lowest performing:
41 companies/ 90% achieved 0 scores

VI. COUNTRY-BY-COUNTRY REPORTING

Highest performing: 20% (KEPCO, SK Innovation; only 9 companies achieved scores but below 50%)
The Average: 1.42%
Lowest performing: 41 companies/90% achieved 0 scores

Country-by-country reporting provides a basic level of transparency to hold companies accountable for their actions in a particular country. Transparency on this matter can help boost a company's public trust. Reporting financial data publicly enables society to evaluate whether the company is contributing in a manner appropriate to its level of activity. In addition, country by country reporting provides investors with more comprehensive financial information about companies and helps them address investment risk more effectively.

Divulging local income and expenditure helps the citizens of those countries aware of how the companies and the local governments interact and do business together. Citizens can therefore monitor the appropriateness of company payments to their governments.

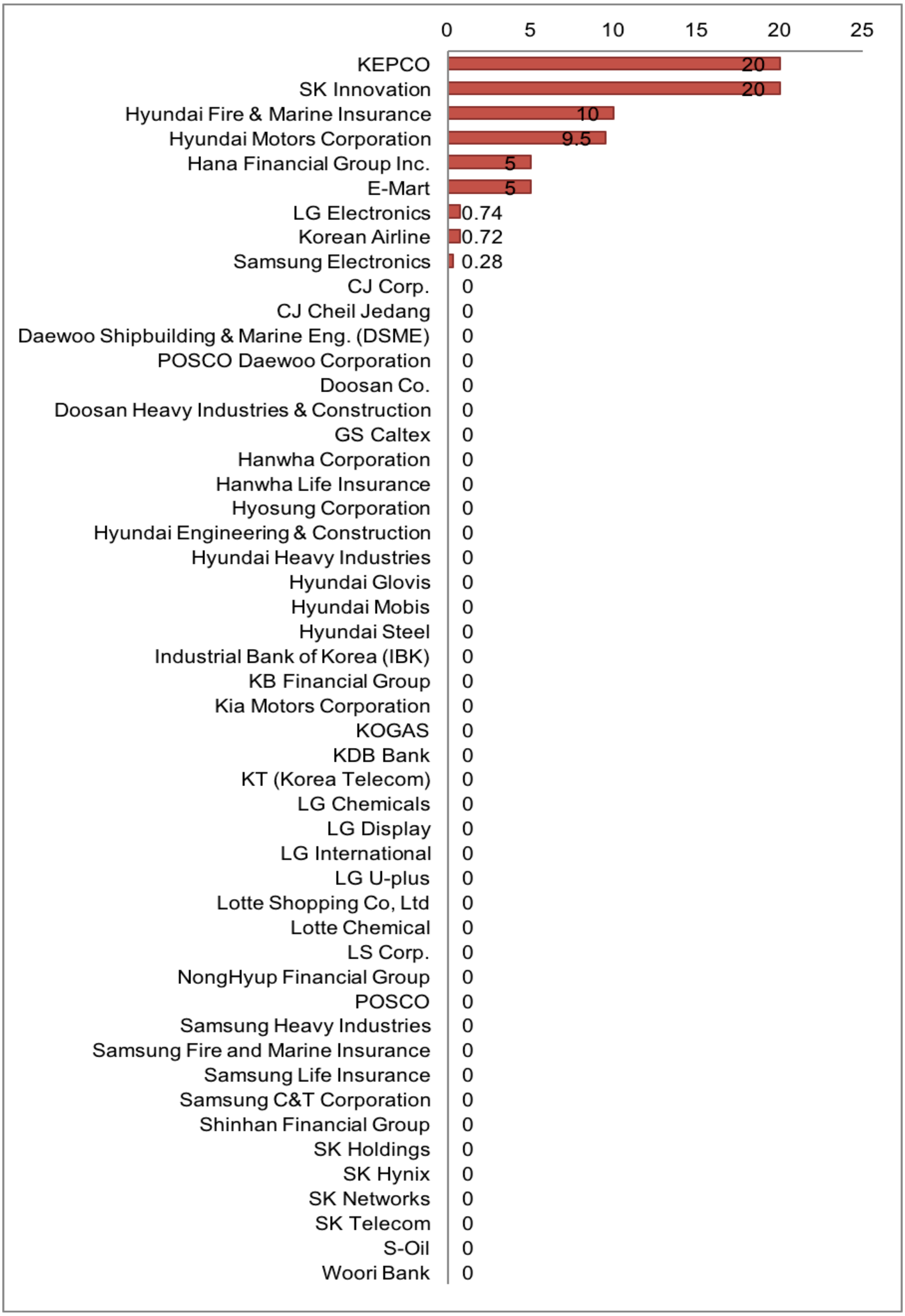
TI Korea strongly urges all companies in this study to be more transparent in their country-by-country financial reporting. "This allows stakeholders to have a clearer understanding of the extent of a company's operations and makes the company more accountable for its activities in a given country, including assessing whether it contributes financially in a manner appropriate to its level of activity".[18]

This third and last dimension includes questions that assess the companies' financial reporting per country in terms of reporting revenues, capital expenditure, income levels before taxes, income tax and community donations/contributions.

The diagram below shows the number and percentages of companies that disclose and do not disclose their financial information.

[18] Global TRAC, 2014, p.6

Diagram 4: Results on country-by-country reporting (CBC)



The average score for this dimension is a very low 1.42%. Only 9 companies make any relevant information public while the rest do not. Most of the companies that did disclose financial information offered very limited information. The top performing companies in this dimension are KEPCO and SK Innovation with 20% each. The other companies that reported financial information, but not all of it, include: Hyundai Fire & Marine Insurance, Hyundai Motors, E-Mart, Hana Financial Group, LG Electronics, Korean Airline and Samsung Electronics.

No companies in this study reported on a country-by-country level their *pre-tax incomes* and *income taxes*. In a very limited manner, very few companies disclosed their *capital expenditures* and *community contributions*.

This low result for country-by-country reporting seems common among companies operating internationally. Reporting on their corporate holdings is difficult to track and the disclosure of information on key financial payments to governments remains the practice of only very few companies. “This means that, for the most part, large public companies are not doing enough to foster transparency and accountability that are needed to ward off corruption”.[19]

At present, there is no particular Korean regulation or legislation that requires companies to conduct country-by-country level reporting. Presence of such regulations can help achieve greater levels of transparency and disclosure on a country by country basis especially regarding key financial indicators.

[19] Global TRAC, 2014, p.7

Recent legal developments for country-by-country reporting

The following recent developments on legislation related to country-by-country reporting are being established mostly in the United States and European Union. Such laws and standards require extractive industries to follow global transparency standards.

Region/Country/Organization	Legislation Descriptions
United States Dodd-Frank Wall Street Reform and Consumer Protection Act (2010) Section 1504	On December 11, 2015, the SEC proposed rules to require the disclosure of certain payments made to governments by resource extraction issuers, as mandated by Section 1504 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. In August 2012, the SEC initially adopted Rule 13q-1 under the Securities Exchange Act of 1934, but it was vacated by the US District Court for the District of Columbia in July 2013. The SEC is required to vote on the adoption of the new rule by June 2016[20]
European Union • Accounting Directive Chapter 10 • Capital Requirement Directive IV • Shareholders Rights Directive	In July 2013, an obligation for extractive and logging companies to publicly report on all their payments to governments on a project-by-project basis in all the countries they operate was included in the Accounting and Transparency Directives. With the Capital Requirement Directive IV, public country by country reporting was for the first time included in EU law for credit institutions and investment firms. Currently, there are two proposals, which are being discussed, to extend public country by country requirements to all sectors. The first one voted by the European Parliament in July 2015 as part of the review of the Shareholders' Rights Directive and the second proposed on 12 April 2016 by the European Commission as an amendment to the Accounting Directive.
G20 – OECD Base Erosion Profit Shifting Action 13	In September 2014 the countries participating in the OECD/G20 Base Erosion and Profit Shifting (BEPS) Project published the report "Guidance on Transfer Pricing Documentation and Country-by-Country Reporting"[21]. The country-by-country report guides aggregate tax jurisdiction-wide information relating to the global allocation of the income, the taxes paid, and certain indicators of the location of economic activity among tax jurisdictions in which the MNE group operates. These reports are not public and only tax administrations will be able to exchange between them and "take all reasonable steps to ensure that there is no public disclosure of confidential information and other commercially sensitive information"[22].

[20] http://www.pwc.com/us/en/cfodirect/publications/in-brief/sec-extractive-industries-payments.html

[21] http://www.oecd-ilibrary.org/taxation/guidance-on-transfer-pricing-documentation-and-country-by-country-reporting_9789264219236-en

[22] http://www.oecd-ilibrary.org/taxation/guidance-on-transfer-pricing-documentation-and-country-by-

VII. RECOMMENDATIONS

In order to improve the transparency features of the companies included in this survey, we offer straightforward recommendations based on the outcome of this research.

To all Korean companies operating internationally:

- As international companies, Korean firms should publish online comprehensive information about their anti-corruption programmes. This information should be available in any universally used international language (at least one, e.g. English).

Our assessment found that many companies have both English (some have Chinese) and Korean websites but not all relevant documents are always translated to English.

- Companies should provide access to their code of conduct document or have a separate webpage describing the details of the company's code of conduct. This should highlight all anticorruption related compliance practices followed by the company.

Description of commitments to anti-corruption activities should be specific rather than general. For example, companies should highlight their policies around whistleblower protection or specify if their anticorruption policies also cover all agents and other intermediaries who act on behalf of the company.

- Companies should encourage their employees to report irregularities especially on corrupt behavior or practices.

The company's code of conduct or related document should explicitly outline measures in place for reporting such incidents. The policy must also outline how the company will investigate such reports and state if whistleblowers will be given anonymity and confidentiality with regards to their complaint and not face any form retaliation or consequences for their reporting.

- The companies' anti-corruption policies should explicitly apply to individuals who are not employees but authorized and acting on behalf of the companies themselves as representatives. These individuals may include, for example, agents, advisors, representatives and/or intermediaries.

Most policies found during the research do not clearly state if such

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individuals have to comply with the companies' anti-corruption policies. In some cases, the company policies do not mention anything regarding the scope and applicability of their policies.

- All companies should publicly make available a complete roster of their associated companies, joint ventures, and holdings.

Information on holdings should be available through company websites. The lists should include the names of the businesses, ownership percentages, countries of incorporation, the names of countries of operation and the kinds of business that the companies are engaged in.[23]

- All companies should publish financial reports per country of operation. This is more relevant in developing countries.

This is the least transparent area for most companies under this study. A country-by-country reporting of financial information is necessary for the general public or stakeholders to monitor businesses and other authorities. Companies reported provided very limited disclosure.

To the Korean government, regulators and policy-makers

- The Korean government and policymakers should rigorously enforce the regulation requiring all Korean companies operating internationally to disclose all their subsidiaries, associated companies, joint ventures and other ownership interests via regulations.

Although the companies score higher in this dimension, many of them still limit their transparency by not disclosing all subsidiaries. A complete list of related businesses with all Korean companies should be made available on their websites. Such a list should include names, ownership percentages, countries of operation and country of incorporation.

- Korean law must require all Korean companies operating internationally to regularly establish country-by-country reporting of financial matters on their websites.

Requiring companies to report their financial information helps establish credibility and accountability. In this study, it is shown that most Korean companies only report business activities and consolidated/summary financial reports but not country-specific reports. Reports on community services only report activities and nothing about the expenses or costs incurred.

- Strengthen South Korean anti-bribery laws and require companies to

[23] TRAC, TI Norway, p.33

comply with related international business laws.

South Korea has enacted the Foreign Bribery Prevention in International Business Transactions Act (FBPA), which includes an article that prohibits any Korean national from promising, giving or offering a bribe to a foreign public official. However, this law should be regulated or amended since it allows certain payments to a public official to facilitate some routine and repetitive functions.

Policymakers must also regulate and require Korean companies to abide by other foreign or international laws on bribery. For example, the United States enacted (1977) the U.S. Foreign Corrupt Practices Act (the "FCPA")[24] which has some similarities with the Korean FBPA. In addition, Korean companies must also comply with OECD Convention on Bribery in which the government is a signatory.

To investors and investor groups

- Require any companies you wish to do business with to provide you with their information on their anticorruption policies before making relevant investment decisions

Investors should require information that is essential for them to make informed investment decisions that are in line with their business standards and ethical principles. Investors should take into consideration the major points under this study: transparency on anti-corruption programmes, organizational transparency for all subsidiaries and business interests, and any country-by-country reporting that may be available to them.

To financial analysts and rating analysts:

- Financial, securities, research, equity, investment or rating analysts and corporate responsibility analysts must focus on a company's transparency and zero-tolerance to corruption programmes, organizational transparency and financial reporting per country of operation.

TI Korea highly recommends that all financial analysts, rating agencies, corporate responsibility analysts and other researchers and institutions include the standards used in this study when assessing companies.

To civil society and non-governmental organizations:

- Activists and civil society organizations must be active in monitoring the business and transparency activities of companies operating in

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[24] http://www.lexology.com/library/detail.aspx?g=1df7a4ea-9861-48a8-a222-dbc3acf68f57

their home countries.

TI Korea strongly requests civil society organizations to monitor foreign companies in the organizations' home country in terms of transparency and corruption issues. Civil society and NGOs are indispensible in terms of monitoring and pressuring entities and companies to comply with local laws and international standards in business.

To the media, reporters and journalists:

- The media can foster transparency by highlighting companies that do not live up to their expected fair business transactions by exposing their corrupt practices to the public.

The media, reporters and journalists are great resources and/or channels of communication between individuals and groups in the company's country of operation. Through the media and other sources, the public and other relevant people can make their voices heard.

ANNEX 1: METHODOLOGY

This section describes the methods used during the research period.

Selection rationale of the 50 companies

The 50 Korean companies included in the sample were based on Fortune Korea's ranking released in 2014. These 50 companies are the top Korean companies among the 500 companies that were ranked based on their size, sales or operation revenues. The companies selected are all large-scale enterprises regardless of what their industrial products may be.

A list of the 50 companies involved in this study is shown in **Annex 4.**

Communicating the methodology

The 50 companies were informed about their inclusion in this TRAC study in late July 2015 before the research commenced. The background, purpose, data collection method include the codebook and opportunity for review and comment on preliminary results was communicated to all companies.

Collection of data

The collection of information via desk research was conducted from August to September 2015. The data were solely extracted from each company's official websites and related links. The information downloaded includes web-pages and company documents.

The data collected and studied mostly relate to the 2014 fiscal year. Any new documents and web-pages published after the research period were not included.

Sharing and reviewing the data

We sent the preliminary results for each company individually.[25] They were given two weeks to review their data, provide feedback and offer corrections. The two-week period was from September 28 to October 9, 2015.

The information sent to each company included the following:

1. An introduction message describing the contents of the information sent
2. Scores for each dimension: anti-corruption programmes, organizational transparency and country-by-country reporting.

[25] The results are sent as emails (21 companies), posts (20 companies) and online fax (9 companies).

3. The codebook with a list of questions

Among the 50 companies, 9 companies engaged with us during the review period. Most of them asked questions about the methodology used in the study.[26] A few of them (5 companies) offered materials with detailed suggestions for verification. Based on the feedback, some adjustments to scores were made.

Transparency questions & scoring system

This study follows the basic standards set by Transparency International. The questions being used here are based on TI's *Transparency in Corporate Reporting: Assessing the World's Largest Companies in 2014*[27]*.* The report assesses the transparency of corporate reporting by the world's largest publicly listed 124 companies. As its standard, the TRAC 2014 evaluates the disclosure practices of companies with respect to their anti-corruption programmes, company structure and the disclosure of major financial data on a country-by-country basis.

The three dimensions are:

- Anti-corruption Programmes reporting (ACP)
- Organization Transparency (OT)
- Country-by-Country Reporting (CBC) of financial information

The first dimension[28] (ACP) includes 13 questions; each is given the score of 0, 0.5 or 1 – where 1 is the maximum score per question. The total points for this dimension were then divided by 13 (maximum possible score). The resulting score is presented as a percentage.

The second dimension includes eight questions on subsidiaries, companies' associated businesses, joint ventures and other holdings. Each question can be given either 0 or 1 point. The total points for this dimension was divided by 8 (the maximum possible score) and presented as a percentage.

For the last dimension (or third section) scoring, the values were calculated and scored differently than the first and second dimensions. Each country-level information provided was given 0 or 1 point. The sum of points per

[26] KEPCO (Korea Electric Power Corporation), Hanwha, LotteShopping, LG Chemicals, Doosan Company, Doosan Heavy Industries & Construction, Hanwha Life Insurance, Samsung Heavy Industries, LG International

[27] http://issuu.com/transparencyinternational/docs/2012_transparencyincorporatereporting_en

[28] The questions derived from the *Transparency International-UN Global Compact Reporting Guidance on the 10 Principle against Corruption* available at: https://www.unglobalcompact.org/docs/issues_doc/Anti-Corruption/UNGC_AntiCorruptionReporting.pdf

question was calculated and then divided into the number of countries of operations. Then the total scores for all five questions were divided into 5 (maximum possible score) and presented as a percentage. The five questions in this dimension were applied to all countries of operations. The first four questions dealt with financial reporting while the last one was about social contributions.

ANNEX 2: QUESTIONS

The following are the questions which are divided into three dimensions.

I. Reporting on Anti-Corruption Programmes (ACP)

1) Does the company have a publicly-stated commitment to anti-corruption?

2) Does the company publicly commit to be in compliance with all relevant laws, including anti-corruption laws?

3) Does the company leadership (senior member of management or board) demonstrate support for anti-corruption?

4) Does the company's code of conduct / anti-corruption policy explicitly apply to all employees and directors?

5) Does the company's anti-corruption policy explicitly apply to persons who are not employees but who are authorised to **act on behalf of the company** or represent it (for example: agents, advisors, representatives or intermediaries)?

6) Does the company's anti-corruption programme apply to non-controlled persons or entities that provide goods or services **under contract** (for example: contractors, subcontractors, suppliers)?

7) Does the company have in place an anti-corruption training programme for its employees and directors?

8) Does the company have a policy on gifts, hospitality and expenses?

9) Is there a policy that explicitly prohibits facilitation payments?

10) Does the programme enable employees and others to raise concerns and report violations (of the programme) without risk of reprisal?

11) Does the company provide a channel through which employees can report suspected breaches of anti-corruption policies, and does the channel allow for confidential and/or anonymous reporting (whistle-blowing)?

12) Does the company carry out regular monitoring of its anti-corruption programme to review the programme's suitability, adequacy and effectiveness, and implement appropriate improvements?

13) Does the company have a policy on political contributions that either prohibits such contributions or if it does not requires such contributions to be publicly disclosed?

II. Organizational Transparency (OT)

14) Does the company disclose **all** of its fully consolidated subsidiaries?

15) Does the company disclose percentages owned in each of its fully consolidated subsidiaries?

16) Does the company disclose countries of incorporation for each of its fully consolidated subsidiaries?

17) Does the company disclose countries of operations for each of its fully consolidated subsidiaries?

18) Does the company disclose all of its non-fully consolidated holdings?

19) Does the company disclose percentages owned in each of its non-fully consolidated holdings?

20) Does the company disclose countries of incorporation for each of its non-fully consolidated holdings?

21) Does the company disclose countries of operations for each of its non-fully consolidated holdings?

III. Country-by-Country Reporting (CBC)

22) Does the company disclose its revenues/ sales in country X?

23) Does the company disclose its capital expenditure in country X?

24) Does the company disclose its pre-tax income in country X?

25) Does the company disclose its income tax in country X?

26) Does the company disclose its community contribution in country X?

ANNEX 3: DEFINITION OF TERMS

The following definitions and explanations of terms are from TI Norway's similar research done in 2014.

Associated companies
An associated company is an entity over which the investor has significant influence, but which is not is a subsidiary or a joint venture. Significant influence is presumed to exist when the investor holds between 20 % and 50 % of the voting power in the company. Significant influence is also presumed to exist when two or more companies in the group have such influence over another company. Significant influence can also occur if the investor has less than 20 % of the voting power. This has to be assessed individually in each single case.

Community contribution
Community contributions are made by companies on a voluntary basis. The contribution can be given in the form of money, goods/services, or a combination. Usually the objective is to contribute to sustainable development, to benefit both the local community and the company. Examples of areas where community contributions are often used include education, health services, environmental protection, and development of local suppliers.

Consolidation
Company groups issue consolidated financial statements. The consolidated financial statement presents the financial positions and results of operations of the parent company and its subsidiaries as if they were a single entity. Consolidation is the process where the parent company's and its subsidiaries' financial statements are merged into a single financial statement for the group. Consolidation is in general, with certain exceptions, be performed for all groups.

Joint venture
A joint venture is an economic activity regulated through contractual agreement between two or more parties, so that they have joint control of the venture's activities. Joint control exists when significant strategic, financial and operational decisions for the activity require unanimous agreement of the parties. None of the parties can alone have determining influence in such matters. Decisions in matters of less importance are made by voting rules agreed by the parties.

Subsidiary
A subsidiary is a company which is controlled by another company. The company with controlling influence is called a parent company. The parent company can have several subsidiaries, and together the companies form a group. In Korea, a company is considered to control another company when

it through ownership or agreement has more than half of the voting power in the other company. Control normally exists when the parent company directly or indirectly owns 50 % or more of the shares in the company, and is capable of exercising de facto control of the company. Control can also exist in cases where the company does not have a majority of the voting power. In such circumstances, specific assessments of all relevant conditions must be made. Control can exist in cases where the company has power to govern the financial and operating policies in the company. This power can be a result of the right to appoint or remove the majority of the members of the board of directors or equivalent governing body, or that the company owns a large non-controlling part and no other owner or owner group has control.

ANNEX 4: LIST OF 50 COMPANIES – SORTED BY SIZE

Company -sorted by size	Company (abbreviations)	Headquarter	Market Value (Trillion KRW)
1	Samsung Electronics	South Korea	229
2	SK Holdings	South Korea	112
3	Hyundai Motors	South Korea	87
4	LG Electronics	South Korea	68
5	SK Innovation	South Korea	67
6	POSCO	South Korea	62
7	Hyundai Heavy Ind.	South Korea	54
8	KEPCO	South Korea	54
9	KIA Motors	South Korea	48
10	GS Caltex	South Korea	46
11	Hanwha Corp.	South Korea	39
12	KOGAS	South Korea	38
13	Hyundai Mobis	South Korea	34
14	KDB Bank	South Korea	32
15	S-Oil	South Korea	31
16	Nonghyup Financial Group	South Korea	31
17	Samsung C&T Corp.	South Korea	28
18	LotteShopping	South Korea	28
19	LG Display	South Korea	27
20	SK Networks	South Korea	26
21	Hana Financial Group	South Korea	25
22	KT (Korea Telecom)	South Korea	24
23	Shinhan Financial Group	South Korea	23
24	LG Chemicals	South Korea	23
25	KB Financial Group	South Korea	23

Company -sorted by size	Company name	Headquarter	Market Value (Trillion KRW)
26	Doosan Co.	South Korea	22
27	Samsung Life Ins.	South Korea	19
28	Doosan Heavy Ind.	South Korea	19
29	CJ Corp.	South Korea	19
30	POSCO Daewoo Corp.	South Korea	17
31	SK Telecom	South Korea	17
32	Lotte Chemical	South Korea	16
33	Samsung Fire & Marine Insurance	South Korea	16
34	Daewoo Shipbuilding & Marine Engineering	South Korea	15
35	Samsung Heavy Ind.	South Korea	15
36	Woori Bank	South Korea	15
37	SK Hynix	South Korea	14
38	Industrial Bank Korea	South Korea	14
39	Hyundai Eng. & Cons.	South Korea	14
40	Hyundai Steel	South Korea	14
41	E-Mart	South Korea	13
42	Hyundai Glovis	South Korea	13
43	Hyosung Corporation	South Korea	13
44	LG International	South Korea	12
45	Korean Airline (KAL)	South Korea	12
46	LG-Uplus	South Korea	11
47	LS Corp.	South Korea	11
48	CJ Cheil Jedang	South Korea	11
49	Hyundai Marine & Fire Insurance	South Korea	10
50	Hanwha Life Insurance	South Korea	10

ANNEX 5: RESULTS SUMMARY – SORTED BY COMPANY SIZE

Company – sorted by size	Score Rank	Company Name	Total Score	ACP (%)	OT (%)	CBC (%)
1	29	Samsung Electronics	4.1	42	81	0.28
2	31	SK Holdings	4.1	42	81	0
3	48	Hyundai Motors	2.5	46	19	9.50
4	14	LG Electronics	4.7	58	81	0.74
5	5	SK Innovation	5.4	62	81	20
6	2	POSCO	6.0	100	81	0
7	9	Hyundai Heavy Ind.	5.1	73	81	0
8	1	KEPCO	6.7	92	88	20
9	7	KIA Motors	5.3	77	81	0
10	45	GS Caltex	2.9	50	38	0
11	46	Hanwha Corp.	2.9	23	63	0
12	28	KOGAS	4.2	81	44	0
13	44	Hyundai Mobis	2.9	69	19	0
14	50	KDB Bank	2.3	58	13	0
15	6	S-Oil	5.4	73	88	0
16	37	Nonghyup Financial Group	3.6	77	31	0
17	39	Samsung C&T Corp.	3.6	58	50	0
18	4	Lotte Shopping	5.5	85	81	0
19	3	LG Display	5.7	88	81	0
20	24	SK Networks	4.2	46	81	0
21	19	Hana Financial Group	4.4	58	69	5
22	30	KT Corporation	4.1	42	81	0
23	35	Shinhan Financial Group	3.9	81	38	0
24	8	LG Chemicals	5.2	69	88	0
25	40	KB Financial Group	3.6	69	38	0

Company – sorted by size	Score Rank	Company Name	Total Score	ACP (%)	OT (%)	CBC (%)
26	11	Doosan Co.	4.7	54	88	0
27	26	Samsung Life Ins.	4.2	58	69	0
28	17	Doosan Heavy Ind.	4.6	69	69	0
29	47	CJ Corp.	2.8	4	81	0
30	18	POSCO Daewoo Corp.	4.4	58	75	0
31	13	SK Telecom	4.7	65	75	0
32	32	Lotte Chemicals	4.1	54	69	0
33	25	Samsung Fire & Marine	4.2	58	69	0
34	10	Daewoo Shipbuilding	5.0	69	81	0
35	20	Samsung Heavy Ind.	4.3	62	69	0
36	22	Woori Bank	4.3	54	75	0
37	42	SK Hynix	3.1	31	63	0
38	36	Industrial Bank Korea	3.9	54	63	0
39	21	Hyundai Eng. & Cons.	4.3	42	88	0
40	23	Hyundai Steel	4.3	35	94	0
41	33	E-Mart	4.1	42	75	5
42	15	Hyundai Glovis	4.6	58	81	0
43	49	Hyosung Corporation	2.5	12	63	0
44	12	LG International	4.7	54	88	0
45	34	Korean Airline (KAL)	4.0	50	69	0.72
46	27	LG-Uplus	4.2	50	75	0
47	38	LS Corp.	3.6	27	81	0
48	41	CJ Cheil Jedang	3.2	27	69	0
49	16	Hyundai Fire & Marine	4.6	54	75	10
50	43	Hanwha Life Insurance	3.0	27	63	0

DISCLAIMER:

The results and findings of this report are gathered from resources publicly available and were submitted to the target companies for feedback. Therefore, the information, recommendations and conclusion mentioned in this report are given with reservations against omissions or errors. TI Korea will not take any responsibility for any loss or damage incurred due to the information either missing or included here.

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