

KIC

Santiago Principles Self-Assessment

Korea Investment Corporation

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Pillar 1

Legal framework, objectives, and coordination with macroeconomic policies

Principle 1 Description:

1. The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).

1.1. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.

1.2. The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.

Principle 1 Implementation:

The legal framework for the Korea Investment Corporation is publicly disclosed through the Korea Investment Corporation Act. The framework provides legal soundness for KIC and its relationship with other state bodies and transactions. The KIC Act states that the corporation shall be a juridical person. KIC's relationship with other laws and state bodies such as the Ministry of Strategy and Finance is publicly disclosed on KIC Act.

Principle 2 Description:

The policy purpose of the SWF should be clearly defined and publicly disclosed.

Principle 2 Implementation:

The purpose of the fund is to conduct effective management of assets which are entrusted by the government, the Bank of Korea, and other public funds defined under the National

Finance Act, and thereby contribute to the development of financial industry. This is publicly disclosed through the KIC Act.

Principle 3 Description:

3. Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.

Principle 3 Implementation:

This is not applicable for KIC since KIC invests only in the international markets.

Principle 4 Description:

4. There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.

4.1. The source of SWF funding should be publicly disclosed.

4.2. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.

Principle 4 Implementation:

Policies, rules, procedures or arrangements in relation to the SWF's actions are publicly disclosed through the Korea Investment Corporation Act 2005. KIC's funding, withdrawal, and spending operations are specified in Article 30 of the KIC Act. KIC manages assets entrusted by the Government, the Bank of Korea, and other public funds defined under the National Finance Act.

Principle 5 Description:

5. The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

Principle 5 Implementation:

According to the annual report, monthly reports are provided to the Ministry of Finance and Strategy and the Bank of Korea.

Audited annual financial statements are found on the following link to our website, provided for the public – <https://www.kic.kr/en/co/co030000.jsp> ^[4]

Pillar 2

Institutional Framework and Governance Structure

Principle 6 Description:

6. The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

Principle 6 Implementation:

The KIC Act establishes a clear and sound governance framework for KIC with an effective governing body – CEO, Steering Committee, Statutory Auditor and etc. The standard accountability information and process for appointment to each position can be found in the Annual report.

The governance of KIC and its structure have adopted high ethical standards and transparency as basic principles of its operation. Following examples and principles are provided on our website – <https://www.kic.kr/en/in/in060100.jsp> ^[5]

Principle 7 Description:

7. The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.

Principle 7 Implementation:

KIC's objectives are set out by the Government and are detailed in GAPP 2 above. The appointment process for the members of the Steering Committee and the President is available at: <http://www.kic.kr/en/in/in030100.jsp> ^[6]

The governing bodies' (President and the Steering Committee) clear procedures for exercising oversight of KIC's operations are explained in KIC Act.

Principle 8 Description:

8. The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.

Principle 8 Implementation:

Per Article 9 of the Korea Investment Corporation Act, the steering committee of KIC is established as the highest governing body. This act also explains the steering committee's mandates, adequate authority and competency.

Principle 9 Description:

9. The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

Principle 9 Implementation:

The asset trust contract to be entered into between KIC and the trust institution shall not have any provision that may restrict the investment management entrusted by the trust institution to KIC.

Principle 10 Description:

10. The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.

Principle 10 Implementation:

The Accountability framework for KIC's operations is clearly set out in the KIC Act.

Principle 11 Description:

11. An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.

Principle 11 Implementation:

Annual reports and accompanying financial statements prepared by our independent statutory auditor are provided annually, in accordance with K-GAAP, our national accounting standard.

Principle 12 Description:

12. The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.

Principle 12 Implementation:

KIC's internal audit services are performed by the external independent firm in accordance with recognised national auditing standards. Such information about KIC's transparency management and audit system is disclosed publicly.

<http://www.kic.kr/en/in/in060400.jsp> [7].

Principle 13 Description:

13. Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.

Principle 13 Implementation:

KIC has adopted high ethical standards and transparency as basic principles of its operation. Details on various efforts to promote higher ethical standards are publicly disclosed on our website

<https://www.kic.kr/en/in/in060100.jsp> [5].

Principle 14 Description:

14. Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.

Principle 14 Implementation:

All dealings with third parties under KIC's operational management follow clear rules and procedures under internal control standards. Internal control standards and the Compliance Officer's responsibilities are publicly disclosed on KIC website.

<https://www.kic.kr/en/in/in060200.jsp> [8]

Principle 15 Description:

15. SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.

Principle 15 Implementation:

KIC has adopted ethics and transparency as basic principles of its operation. KIC complies with international conventions and regulations related to investment and trade by respecting the laws and cultures of the host country.

<http://www.kic.kr/en/in/in060100.jsp> [9]

Principle 16 Description:

16. The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.

Principle 16 Implementation:

KIC's highest decision-making body is the Steering Committee. The Steering Committee consists of members of the Civil Society, selected from the private sector rather than government sector which ensures autonomy and independent operation from the Government. This description regarding Steering Committee is shown on our website.

<https://www.kic.kr/en/in/in030100.jsp> [10]

Principle 17 Description:

17. Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.

Principle 17 Implementation:

Annual reports including the audited annual financial statements are published regularly and publicly disclosed on our website.

<http://www.kic.kr/en/co/co020000.jsp> ^[11]

The KIC Act states that the corporation shall make public disclosures on financial statements and accounting standards, the audit report of financial statements, and the mid- and long-term investment policies as resolved by the Steering Committee.

Pillar 3

Investment and Risk Management Framework

Principle 18 Description:

18. The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

18.1. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.

18.2. The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.

18.3. A description of the investment policy of the SWF should be publicly disclosed.

Principle 18 Implementation:

KIC's Investment Policy statement, including objectives, risk tolerance, and investment strategy, is published on our website.

<http://www.kic.kr/en/ki/ki010000.jsp> ^[12]

Investment Policy and Investment Process provides guidelines to the public on how the investment decision-making process (including financial risk exposures) is performed. Annual reports include portfolio management objectives.

<http://www.kic.kr/en/ki/ki010000.jsp> ^[12]

Information about the asset portfolio and its range between external to internal management is publicly provided through our annual report.

A separate External Fund Manager ("EFM") Guideline addresses the process by which they are selected and their performance monitored. This information is provided in our annual report.

Principle 19 Description:

19. The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

19.1. If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.

19.2. The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.

Principle 19 Implementation:

The KIC's investment objective is to generate consistent and sustainable returns in excess of the benchmark within an appropriate level of risk. Below are the KIC's investment objectives that are accepted as sound asset management principles.

(1) Minimising the risks from individual markets and assets through portfolio diversification

(2) Exercising flexibility to seize investment opportunities

The above are the reasons for investment decisions that are consistent with investment policy based on economic and financial grounds.

<http://www.kic.kr/en/ki/ki010000.jsp> [12]

Principle 20 Description:

20. The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

Principle 20 Implementation:

The KIC Act prohibits the KIC members from taking advantage of privileged information. Specifics of our compliance policy are available on our website.

<https://www.kic.kr/en/in/in060200.jsp> [8]

Principle 21 Description:

21. SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.

Principle 21 Implementation:

KIC adheres to the basic principles of acting in good faith and enhancing shareholder value in the long-term when exercising voting rights. It is our basic policy to maintain a neutral stance when exercising voting rights for holdings of less than 1%, or in the case of

externally managed investments. This information is publicly disclosed via the following website address.

<https://www.kic.kr/en/ki/ki050000.jsp> ^[13]

Principle 22 Description:

22. The SWF should have a framework that identifies, assesses, and manages the risks of its operations.

22.1. The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

22.2. The general approach to the SWF's risk management framework should be publicly disclosed.

Principle 22 Implementation:

The risk management subcommittee under the Steering Committee and the Risk Management Working Committee under the Board of Directors are responsible for formulating detailed measures. KIC classifies risks into five categories: market, credit, derivatives, operational and legal. Each risk holds quantitative indicators and is monitored during the actual investment process. When risk exceeds limits, the Risk Management Working Committee examines the risk issues and considers countermeasures.

Further information on how each risk category is assessed by the committee is publicly disclosed on our website.

<http://www.kic.kr/en/ki/ki060100.jsp> ^[14]

Principle 23 Description:

23. The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.

Principle 23 Implementation:

Investment performance of KIC is reported to the owner according to defined principles and standards (the asset trust contract with the trust institutions).

Our assets and investment performance (absolute, and relative to benchmark) are measured and reported publicly to ensure transparency and accountability. The information on our measured assets and investment performance is shown on our website.

<http://www.kic.kr/en/ki/ki030100.jsp> ^[15]

Principle 24 Description:

24. A process of regular review of the implementation of the GAPP should be engaged in

by or on behalf of the SWF.

Principle 24 Implementation:

We plan to review GAPP implementation annually.

Source URL (modified on 2017-02-21 11:09): <http://www.ifswf.org/assessment/kic>

Links

- [1] <http://www.ifswf.org/node/447>
- [2] <http://www.kic.go.kr/en/>
- [3] <http://www.ifswf.org/assessments>
- [4] <https://www.kic.kr/en/co/co030000.jsp>
- [5] <https://www.kic.kr/en/in/in060100.jsp>
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