



International Forum of Sovereign Wealth Funds

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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 Korea Investment Corporation (hereinafter referred to as "KIC ") was established under the Korea Investment Corporation Act (hereinafter referred to as "KIC Act "). The legal framework for KIC, based on the KIC Act, provides legal soundness for KIC and its transactions.

The KIC Act states KIC's legal basis [4], governance structure, scope of work and relationship with other laws and state bodies, such as the Ministry of Economy and Finance.

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 the finance industry.

This is publicly disclosed through Article 1 of the KIC Act [4].

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:

Not applicable, as KIC invests only in international markets, in accordance with Article 31, Paragraph 3 of the KIC Act [4].

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:

KIC's funding and withdrawal are specified in Articles 2 and 30 of the KIC Act and Article 11 of the Enforcement Decree of the Korea Investment Corporation Act (hereinafter referred to as "KIC Enforcement Decree").

KIC manages assets entrusted by the government, the Bank of Korea and other public funds defined under the National Finance Act [4].

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:

Monthly and semi-annual reports are provided to the Ministry of Economy and Finance and the Bank of Korea.

Annual reports and audit reports [5], including financial statements, are also provided and publicly disclosed.

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, etc.

The standard accountability information and process for appointment to each position can be found in Chapters 2 and 3 of the KIC Act [6].

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 detailed in GAPP 2 above.

KIC appoints members of the Steering Committee and the President according to the procedures specified in Chapter 2 of the KIC Act.

The governing bodies (President and Steering Committee) exercise oversight over KIC's operations in accordance with Article 35 of the KIC Act [4].

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 KIC Act [4], the Steering Committee of KIC is established as the highest governing body.

This article also explains the Steering Committee's mandates and adequate authority.

All Steering Committee members must meet the qualifications set out in Articles 10 and 11 of the KIC Act.

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, in accordance with Article 30 of the KIC Act [4].

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 [4]

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 [7], 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 financial statement audit services are performed by an external independent firm

(Grant Thornton Daejoo) in accordance with recognized national auditing standards (KIFRS) [5].

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 [8].

<http://www.kic.kr/en/01/06/04.jsp> [9]

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's website [10].

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 complies with international conventions and regulations related to investment and trade by respecting the laws and cultures of the host country. In addition, the KIC Legal Team [11] controls and manages legal risks through reviewing agreements on the management of entrusted assets, analyzing domestic and foreign laws related to investments and handling legal disputes.

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 civil society selected from the private sector rather than the government sector, which ensures autonomy and independent operation from the government. Article 14 of the KIC Act ^[12] details how Steering Committee members are appointed.

Article 35, paragraph 4 ^[4] of the KIC Act stipulates that KIC shall have a corporate governance structure that ensures investment independence and operational autonomy from government sponsors.

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.

KIC makes 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 in accordance with Article 36 of the KIC Act.

<http://www.kic.kr/en/04/02/01.jsp> ^[7]

<http://www.kic.kr/en/04/03/01.jsp> ^[5]

<http://www.kic.kr/en/04/01/01.jsp> ^[4]

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 is publicly disclosed on the website ^[13], and clearly states our investment objectives, investment principles, investment asset classes and asset allocation, and details regarding our external fund managers, risk management, performance evaluation and compliance monitoring.

In addition, guidelines ^[11] including financial risk exposures are specified in the asset trust contract.

The external fund manager selection process and performance monitoring plan are defined in KIC's internal regulations for investment management.

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:

KIC's investment objective is to generate consistent and sustainable returns in excess of the benchmark within an appropriate level of risk.

Below are KIC's investment principles, which are accepted as sound asset management principles.

- (1) Minimizing the risks from individual markets and assets through portfolio diversification
- (2) Exercising flexibility to seize investment opportunities

These are the reasons for our investment decisions, which are consistent with investment policy based on economic and financial grounds.

<http://www.kic.kr/en/02/01/01.jsp> [13]

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 KIC members from taking advantage of privileged information.

Specifics of our compliance Standards and Code of Ethics & Conduct are available on our website.

<http://www.kic.kr/en/01/06/03.jsp> [10]

<http://www.kic.kr/en/01/06/02.jsp> [14]

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 shareholder rights.

For the faithful implementation of these principles, KIC has established the KIC Stewardship Principles. This information will be disclosed on our website.

<http://www.kic.kr/en/02/01/05.jsp> [15]

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 and Audit Subcommittee under the Steering Committee and the Risk Management Working Committee under the Board of Directors are responsible for managing the risk control framework and policies. KIC classifies risks into six categories: market, alternative investment, 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/02/05/01.jsp> ^[11]

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:

KIC's investment performance is reported to the owner according to defined principles and standards (the asset trust contract with 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/04/02/01.jsp> ^[7]

<http://www.kic.kr/en/04/03/01.jsp> ^[5]

<http://www.kic.kr/en/02/03/01.jsp> ^[16]

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 review GAPP implementation regularly, and provide results to the IFSWF.

Source URL (modified on 2023-09-20 08:44):<https://www.ifswf.org/assessment/kic-2022>

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[1] <https://www.ifswf.org/node/447> [2] <http://www.kic.go.kr/en/> [3] <https://www.ifswf.org/assessments>
[4] <http://www.kic.kr/en/04/01/01.jsp> [5] <http://www.kic.kr/en/04/03/01.jsp> [6]
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