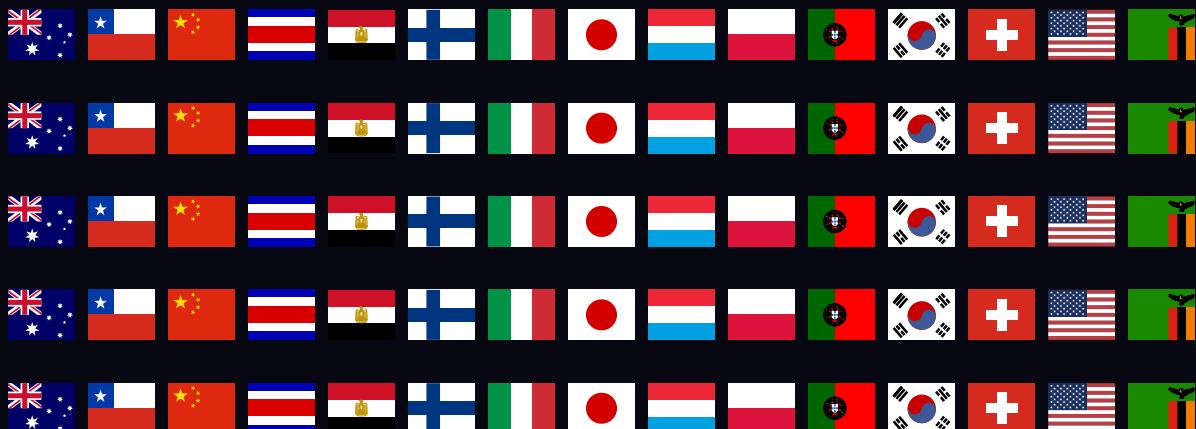


# ESG AND IMPACT INVESTING

## South Korea



# ESG and Impact Investing

Consulting editors

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Quick reference guide enabling side-by-side comparison of local insights into the local legal and policy framework; duties, liabilities and best practices; ratings; incentives; formation and operation of purpose-driven companies; state supervision; public procurement; governmental, NGO and supranational support; sources of finance; and recent trends.

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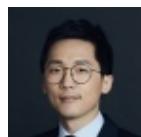
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### South Korea

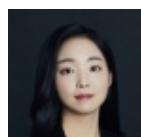


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## LEGAL AND POLICY FRAMEWORK

### Legislation

Has your jurisdiction enacted any primary or secondary legislation addressing environmental, social and governance (ESG) factors in banking, finance and corporate law, or legislation addressing the pursuit of other non-financial objectives by companies and investors?

There are various laws addressing ESG factors and other non-financial objectives as follows:

- Framework Act on Carbon Neutrality and Green Growth in Response to the Climate Crisis (the Carbon Neutrality Act), effective from 25 March 2022. The Carbon Neutrality Act sets a mid-term goal to reduce greenhouse gas emissions from 2018 to 2030 by at least 35 per cent. Pursuant to the Carbon Neutrality Act, companies should assess their impact on climate change when carrying out major government plans or development projects, and the government will operate a climate response fund.
- Environmental Technology and Industry Support Act (the Environmental Technology Act), effective from 25 March 2022. The Environmental Technology Act requires the listed companies with net assets of 2 trillion won or more to disclose environmental information such as greenhouse gas and other air pollutant emissions, and the scale of environmental investments. Financial institutions must strive to make environmentally responsible investments, and the minister of environment will set out a green taxonomy. In fact, the minister of environment released the K-Taxonomy Guidelines in December 2021.
- Severe Accidents Punishment Act, effective from 27 January 2022. Under the Severe Accidents Punishment Act, large corporations with 500 or more full-time employees or construction companies that rank within the top 200 nationwide must have an internal body responsible for the health and safety of their employees to prevent severe accidents.
- Financial Investment Services and Capital Markets Act (the Capital Markets Act). Recently, the Capital Markets Act was amended to secure diversity of the board of directors: the listed companies with net assets of 2 trillion won or more must appoint at least one female director by August 2022.

Law stated - 21 June 2022

### Policy guidance and development

How would you describe the general level of policy guidance and development regarding ESG, impact investing and purpose-driven companies in your jurisdiction?

ESG practices and policy guidance are being strengthened through the proposal of bills and the enactment of new legislations in the areas of environment, climate change, labour and employment, health and safety, and human rights. In addition to the disclosure of environmental information and corporate governance, the green taxonomy, the green bonds, and the K-ESG guidelines have been created.

On the other hand, Korea's impact investment is still in its infancy, and there has not been sufficient policy guidance from the government. As impact investors such as Envisioning Partners, HG Initiative Inc, and Sopoong expand their market activities, they are making their own standards for measuring and assessing the social impact of companies.

Since the Social Enterprise Promotion Act was enacted in 2007, support for social enterprises, a type of purpose-driven companies, certified by the Ministry of Employment and Labour has grown. The previously governing Democratic

Party had announced the revitalisation of the social economy as one of its 100 Policy Tasks agenda and introduced the policies to expand social finance and public procurement, while implementing the infrastructure for social economic growth. However, three laws on the social economy, including the Framework Act on the Social Economy, are still in the legislative process in the National Assembly and have not been passed yet.

Law stated - 21 June 2022

## INVESTMENT

### Regulatory and fiduciary duties

Are institutional investors and financial intermediaries legally required to consider ESG factors when making investment decisions? Must any additional non-financial principles and objectives be considered?

In principle, institutional investors and financial intermediaries are governed by corporate laws when managing their own assets, and the Capital Markets Act (which regulates collective investment business entities and trust business entities) or the Trust Act (which regulates trustees) when managing others' assets as investment trusts or funds. However, these laws do not yet have a provision, mandatory or voluntary, that demands companies to take into consideration ESG factors when making an investment decision.

With respect to pension funds, the pension-related laws such as the National Pension Act may be applicable. Under the National Pension Act , there are provisions that expressly allow for the consideration of ESG factors as far as it is premised on profit maximisation. Article 102(4) stipulates that in order to increase a stable long-term revenue, ESG factors about an investment target may be considered. Under article 103-3, the Trustee Responsibility Special Committee of the National Pension Fund Management Committee reviews and deliberates on ESG considerations.

In addition, sectoral ESG-related laws continue to be developed to encourage institutional investors and financial intermediaries to consider ESG factors in their investment decisions. For example, under article 10-4 of the Environmental Technology Act, financial institutions should incorporate environmental factors in their decision to make an investment, hence making an environmentally responsible investment. Through the 2021 enactment of the Carbon Neutrality Act, Korea became the 14th nation worldwide to legislate for carbon neutrality. According to the law, the national and local governments should implement financial policies to transition to a carbon-neutral society and to respond to the climate crisis, and public institutions and businesses should cooperate with them.

Law stated - 21 June 2022

### Voluntary standards and best practices

What voluntary standards and best practices are commonly followed in your jurisdiction with regard to integrating ESG factors and other non-financial principles into investment decisions?

Korea Corporate Governance Service (KCGS) published the voluntary Stewardship Code, titled the Principles on the Stewardship Responsibilities of Institutional Investors, in December 2016. As of 22 June 2022, there are around 190 institutional investor participants including pension funds, insurance companies, asset management companies, private equity firms, financial advisory firms, banks, and the National Pension Service.

One of the underlying principles of the Stewardship Code is that institutional investors should regularly inspect investment target companies to enhance their mid- to long-term values, thereby preserving and raising their investment values. Its detailed guidelines provide that, for the purpose of inspection, institutional investors need to consider all factors that affect the value and sustainable growth of investment target companies. They should not only consider

financial factors such as financial structure and business performance, but also non-financial factors such as corporate governance and business strategies.

Law stated - 21 June 2022

## Measurement, reporting and disclosure

What voluntary and statutory measurement, reporting and disclosure frameworks are followed in your jurisdiction with regard to ESG and other non-financial factors?

Effective from 2019, listed companies with net assets of 2 trillion won or more are mandated to disclose corporate governance reports and, starting in 2022, the threshold of the above requirement has been lowered to net assets of 1 trillion won or more.

Other than corporate governance reports, ESG disclosures are usually made through sustainability reports, and voluntary disclosure is required of the topics that should be informed to investors. To encourage voluntary disclosure by companies, the Korea Exchange (KRX) released in January 2021 the Guidance on Disclosure of ESG Information, which outlines the fundamental principles of ESG information disclosure and advisory disclosure guidelines.

Furthermore, according to the Financial Services Commission, effective from 2025, the requirement of disclosure of sustainability reports will be applied to all listed companies with net assets of 2 trillion won or more, and from 2030 to all listed companies.

Law stated - 21 June 2022

## Ratings, indices and guidelines

What ratings, indices and guidelines are used to benchmark adherence to ESG principles and other non-financial factors in your jurisdiction?

KCGS and some private companies such as Sustainvest and Daishin Economic Research Institute have devised their own assessment models to rate companies' ESG management. These three are known as the major domestic ESG rating agencies, and most capital market participants, when making their investment decisions, refer to the annual ESG ratings that they release. Also, the international ESG ratings provided by global assessment indicators, such as the Dow Jones Sustainability Indexes (DJSI) and MSCI ESG Indexes, are cited as important sources.

Although not mandatory, many listed companies voluntarily publish and disclose their sustainability reports. Most companies use various international indices for disclosure, but the Global Reporting Initiative (GRI) is most often adopted. A growing number of companies are using the indices of the Task Force on Climate-Related Financial Disclosures (TCFD) or Sustainability Accounting Standards Board (SASB), which view investors as their primary disclosure target. For sustainable management disclosure verification, the international standards such as AA1000AS and ISAE3000 are used.

The Ministry of Trade, Industry and Energy released draft K-ESG Guidelines in December 2021 pursuant to the Industrial Development Act, which is tailored to the Korean business environment while corresponding to the international criteria.

Law stated - 21 June 2022

## Incentives, benefits and financial support

Are any fiscal incentives or other benefits available in your jurisdiction to encourage institutional investors and financial intermediaries to integrate ESG and other non-financial factors into their investment decision-making?

The Korea Credit Guarantee Fund (KCGF), a public financial institution, and the Industrial Bank of Korea, a state-run bank with the goal of revitalising SMEs, have various mechanisms in place to provide benefits such as guarantees and interest rate cuts. Since February 2022, KCGF has operated the ESG management competency assessment guarantee system, in which ESG-oriented companies are given a preference in their vetting process. Based on its review of the applicants' ESG management, KCGF provides benefits such as raising the guarantee limit and lowering the guarantee fees.

In April 2022, the Industrial Bank of Korea and the Korea Chamber of Commerce and Industry (a private economic organisation established pursuant to the Chambers of Commerce and Industry Act) introduced a sustainability-linked loan (SLL). A bank adjusts the interest rate of SLL based on the borrower's level of ESG management. SLLs provide incentives for SMEs to raise the level of ESG management by offering discount rates on loans in milestones in accordance with their achievement of ESG goals.

Law stated - 21 June 2022

## Impact investing

In addition to ESG factors, what considerations and practices are commonly integrated into impact investment strategies?

The government provides policy-oriented investment support and tax benefits to certified social enterprises. In addition, the government creates various funds to revitalise impact investment and promote preferential investment of public funds in certified social enterprises. Under the Tech Incubation Program for Startups (TIPS), once venture capital and accelerators verify the growth potential of certain innovative start-ups, the government provides them with follow-up support. To drive the growth of SMEs and venture enterprises, the government set up the Korea Fund of Funds (KFoF) in 2005 for indirect investment in venture capital. According to a media report in April 2022, the new presidency with the new ruling political party announced that it plans to expand the KFoF and TIPS from the previous administration.

Law stated - 21 June 2022

## PURPOSE-DRIVEN COMPANIES

### Legal recognition and certification

What legal forms or statuses are used in your jurisdiction to establish purpose-driven companies?

A 'purpose-driven company' is not expressly materialised under Korean law, but social enterprises and social ventures may be deemed purpose-driven companies as they require certain social or public interest purposes under the relevant laws.

Under the Social Enterprise Promotion Act, a 'social enterprise' refers to an entity certified by the minister of

employment and labour, and that pursues social objectives while engaging in business activities such as production and sales of goods and services. A social enterprise may be formed as a company pursuant to the Commercial Code , or as a non-profit corporation, association, or public interest corporation under the Civil Code .

A 'social venture' is a business venture that pursues social and economic values holistically, and was newly defined under the Act on Special Measures for the Promotion of Venture Businesses (the Venture Business Act) in April 2021. Social ventures must satisfy the requirements of having a social purpose and an innovative growth potential.

Law stated - 21 June 2022

## Purpose and mission

What rules and standard practices govern the establishment of companies' social or environmental purposes and mission?

Under the Commercial Code, most companies, including stock companies, are allowed to state public interest as their purpose of incorporation in addition to their main business purpose in the articles of incorporation. Also, the court has held that an act that is necessary to directly or indirectly achieve a company's purpose falls within its scope of purpose even if it is not included in the articles of incorporation (Supreme Court Decision 98Da248).

To be certified as a social enterprise, an entity must specify a social purpose such as the provision of job opportunities or social services to the underprivileged. The purpose of a social enterprise may be changed through the amendment of the articles of incorporation, provided the Ministry of Employment and Labour is informed within 14 days from the date of amendment.

The eligibility requirements of social ventures include whether the social values to be pursued or social problems to be solved are specifically stated in the articles of incorporation. For social ventures to be eligible for financial support from the Ministry of Small and Medium-sized Enterprises and Startups, their purpose must specify their social purpose in the articles of incorporation.

Law stated - 21 June 2022

## Profit distribution, winding up and remuneration

What rules and restrictions govern profit distributions for purpose-driven companies in your jurisdiction?

A social enterprise must include a provision on the use of profits for a social purpose in its articles of incorporation. At least two-thirds of the distributable profits generated each fiscal year must be used for a social purpose, primarily for improving working conditions and expanding social contribution projects. Performance-based pay for the representatives, executives, and lineal ascendants and descendants, donations to religious groups, and missionary budgets are not recognised as a use for social purpose.

Law stated - 21 June 2022

## What rules and restrictions govern the winding up of purpose-driven companies?

A social enterprise must donate at least two-thirds of the distributable remaining assets upon dissolution or liquidation to other social enterprises or public interest funds. A social venture, if it is in the form of a stock company under the Commercial Code, must undergo the liquidation procedures stipulated thereunder. For example, a general meeting of shareholders should be convened to resolve dissolution and a liquidator should be appointed to execute the liquidation-related affairs, such as debt repayment. The remaining assets after the debt repayment should be equally distributed to the shareholders.

Law stated - 21 June 2022

## What rules and restrictions govern the remuneration of directors, officers, employees and third parties?

As for social enterprises and social ventures that are deemed stock companies, unless otherwise indicated in the articles of incorporation, their directors' remuneration should be determined by a resolution of the general shareholders' meeting pursuant to the Commercial Code.

Law stated - 21 June 2022

## Measurement, benchmarking and reporting

Are purpose-driven companies legally required to measure, benchmark and report the social and environmental impact of their business?

There is no statutory obligation for purpose-driven companies to measure, benchmark or report on the social and environmental impacts of their business. However, social enterprises are required to submit a business report that includes non-financial information such as their social purpose (social services and job opportunities offered to the underprivileged) to the minister of employment and labour by the end of April and end of October of each fiscal year. If a social enterprise neglects its obligation to, or fails to, prepare or submit a report, or fraudulently or unlawfully prepares or submits the report, then it will be subject to a fine of up to 5 million won.

Law stated - 21 June 2022

## What statutory and voluntary standards, guidelines and best practices are followed by purpose-driven companies in your jurisdiction with regard to the measurement and reporting of ESG and other non-financial factors?

Apart from the statutory requirement to submit a business report pursuant to the Social Enterprise Promotion Act, a certified social enterprise may participate in the government-run voluntary business management disclosure system. The participants are asked to disclose details such as the industry type, and the description and history of the business, as well as its mission and vision, profiles of the social entrepreneurs, and the state of resource allocation. The Ministry of Employment and Labour encourages participation by providing consulting services (such as assistance with the participants' preparation of necessary information) and incentives (such as rewards to various support projects) or by actively marketing them as superior social enterprises. There were approximately 1,471 social enterprise participants in the Ministry of Employment and Labour's voluntary business management disclosure system.

in 2021.

Law stated - 21 June 2022

### Director liability and private enforcement

What rules govern the liability of directors of purpose-driven companies for compliance with social and environmental standards and principles? In addition to shareholders, are stakeholders entitled to hold directors accountable through private enforcement action?

Under the Civil Code, the director of a social enterprise or a social venture has a duty of care. If a director neglects his or her duty of care, he or she must compensate the company for the damages that he or she causes. If a social enterprise or a social venture is formed as a stock company, its director bears the duty of loyalty pursuant to the Commercial Code, together with the duty of care. The director has a duty to actively strive to pursue the interests of the company, and if the interests of the company and his or her own interests conflict, he or she cannot put his or her own interests first. If a director of a stock company intentionally or negligently violates the laws or the articles of incorporation, or acts contrary to his or her duty of care or duty of loyalty, the director should be liable for damages to the company; and the minority shareholders may file a derivative lawsuit asking the director to be responsible. The recent amendment to the Commercial Code has allowed the minority shareholders of a parent company to file a derivative lawsuit against the director of its subsidiary.

There is no precedent, but if the director of a social enterprise or a social venture that was formed as a stock company makes a decision incorporating ESG factors and the company eventually incurs damages, it would be debatable whether the company should be liable for its own damages or the director should be liable to the company.

Law stated - 21 June 2022

### State supervision

Is there any form of state supervision of purpose-driven companies in relation to their social and environmental purposes?

Under the Social Enterprise Promotion Act, the minister of employment and labour has the authority to certify social enterprises and may revoke the certification if the initial certification requirements are breached. The minister of employment and labour guides and supervises social enterprises and, if necessary, may order them to submit reports or related documents necessary for their business or to make corrections thereon.

Law stated - 21 June 2022

### Incentives and benefits

Are any fiscal incentives or other benefits available for purpose-driven companies in your jurisdiction? What is the scope of these benefits and what requirements apply?

Under the Social Enterprise Promotion Act, the benefits available to certified social enterprises are:

- management support (including professional advice and information necessary for the establishment and operation of business) and training;
- support and loans for land purchase and facility costs;
- tax reduction and exemption; and

- support for social insurance premiums and social services.

Under the Venture Business Act, the benefits available to social ventures are:

- technology guarantee and investment;
- finding and nurturing of prospective entrepreneurs or founders; and
- other matters necessary to revitalise social ventures.

Law stated - 21 June 2022

## Public procurement

Do the public procurement rules and policies in your jurisdiction confer any advantages on companies for pursuing social or environmental purposes? If so, what conditions apply?

To promote the sales and self-sufficiency of social enterprises, when public institutions purchase goods and services, those of certified social enterprise are given a priority pursuant to the Social Enterprise Promotion Act. A public institution may purchase goods and services by directly entering into a contract with a social enterprise, or indirectly by using a voucher.

However, social enterprise procurement in 2018 accounted for a mere 0.6 per cent, compared to other business entities that enjoy the benefits of preferential purchases, such as SMEs (75.1 per cent), women's enterprises (8.7 per cent) and disabled business enterprises (1.9 per cent). As for social ventures, there is no public procurement support system, but they receive indirect support through social venture competitions held by the government and the private sector.

Law stated - 21 June 2022

## Economic sustainability and market competition

How would you describe the level of economic sustainability and market competition of purpose-driven companies?

Social enterprises are becoming more self-sufficient and competent. As of September 2021, the total revenue of social enterprises was around 5.29 trillion won, an increase of 9.9 per cent from the previous year, and their five-year survival rate reached 79.7 per cent. However, since social enterprises are statutorily required to reinvest two-thirds of their profits, they need to think of ways to create more business opportunities as well as to limit investment losses.

The total amount of investments that social ventures received in 2020 was around 267 billion won, more than nine times higher than that of 2019. With the recent expansion of ESG management, the awareness and investment value of social ventures seem to have heightened, and this trend is expected to continue. To support this, the Ministry of Small and Medium-sized Enterprises and Startups will be launching a social value performance measurement system in 2022 that converts the social performance created by social ventures into monetary values based on the Impact Management Project, an international standard for impact measurement and reporting.

Law stated - 21 June 2022

## GOVERNMENT, NGO AND SUPRANATIONAL SUPPORT

### Government support

Are there any governmental actors in your jurisdiction that are specifically dedicated to promoting and supporting socially and environmentally responsible investment practices, as well as purpose-driven companies? What purposes do they pursue and how do they do so?

Pursuant to the Social Enterprise Promotion Act, Korea Social Enterprise Promotion Agency (KoSEA) was established as a sub-agency of the Ministry of Employment and Labour. KoSEA helps with the growth and commercialisation of social enterprises, including, but not limited to, conducting training for social enterprises, searching for a model social enterprise, and monitoring and evaluating social enterprises.

Each administrative agency of the Korean government implements social economy-related projects, and some departments jointly form a task force to prepare ESG-related policies. For example, the Ministry of Small and Medium-sized Enterprises and Startups operates an evaluation system to nurture social ventures and certain programmes to bolster their capacities.

Further, the Financial Services Commission, the Ministry of Environment, the Ministry of Economy and Finance, and the Ministry of Trade, Industry and Energy launched the Green Finance Taskforce in 2021 to prepare the K-Taxonomy, green finance best practices, and green bond guidelines.

Law stated - 21 June 2022

### NGO support

Are there any non-governmental organisations (NGOs) operating in your jurisdiction that are specifically dedicated to promoting and supporting socially and environmentally responsible investment practices, as well as purpose-driven companies? What purposes do they pursue and how do they do so?

Non-profit organisations such as Good Neighbours Global Impact Foundation, B Lab Korea, and Root Impact are widely known. In collaboration with corporations, they raise public awareness of ESG and funds to support purpose-driven companies.

As an impact investor and accelerator established in 2012, the Korea Social Investment Foundation provides investments, management consulting, and accelerating services for all types of business entities that have a social purpose. Also, there are public interest lawyers' organisations such as Duru, Dongcheon, and Sun that provide free legal support to purpose-driven companies.

Law stated - 21 June 2022

### Supranational support

Are there any supranational actors operating in your jurisdiction that are specifically dedicated to promoting and supporting socially and environmentally responsible investment practices, as well as purpose-driven companies? What purposes do they pursue and how do they do so?

Seoul is the host city of the Global Social Economy Forum (GSEF). GSEF is a global social economy network that was

launched to collaborate across the borders through multilateral partnerships involving the public sector, private companies, and the community. In October 2021, the G7 KOREA ESG Committee (G7 Committee), a private Korean organisation working in conjunction with the G7 Impact Taskforce, was launched. The G7 Committee's upcoming activities include the enhancement of transparency in global ESG disclosure and assessment, expansion of ESG investment, and proposal of ESG policies.

Further, the Korean Standards Association (KSA) signed a business agreement with the Global Steering Group for Impact Investment in May 2022 to cooperate on impact investment, ESG measurement, and the development of disclosure standards.

Law stated - 21 June 2022

## FINANCIAL TOOLS

### Equity funds and loans

Does your jurisdiction regulate equity funds or other financial tools such as loans designed to scale up companies with social or environmental objectives? Even if not expressly regulated, are there venture funds specifically focused on investing in purpose-driven companies?

There is no sectoral law that governs ESG finance per se. Loans, funds, and venture capital with social or environmental objectives are treated similarly to those without social or environmental objectives under financial laws. Depending on the type of financial institution or fund, various laws including the Banking Act, the Act on Registration of Credit Business and Protection of Finance Users, the Capital Markets Act, the Venture Investment Promotion Act, and the Specialized Credit Finance Business Act may be applicable. In an applicant screening process, a financial institution or an asset management company refers to the applicant's internal guidelines, international ESG assessments, and certifications (eg, social venture).

Public funds and KFoFs with a public purpose that actively support sustainable finance are regulated by sectoral laws such as the Korea Credit Guarantee Fund Act. The Korea Credit Guarantee Fund Act is applicable to KCGF, which is playing an increasingly active role in sustainable finance by issuing or guaranteeing ESG bonds and providing a preferential guarantee to ESG-oriented businesses.

Law stated - 21 June 2022

### Outcomes funds

Does your jurisdiction regulate 'pay for success' investing models such as outcomes funds? Apart from specific regulation, are any of these mechanisms in force or in progress in your jurisdiction?

Currently, there is no comprehensive law on performance-based funds, and individual social impact bond (SIB) projects are approved based on local government ordinances. A private SIB-operating institution receives private investments to carry out a public project and the government, local governments, or public institutions evaluate its achievements ex post facto. If found successful, the SIB-operating institution receives performance-based pay (including the investment principal and incentives).

From 2019 to 2021, several bills such as the Act on Promotion and Revitalization of Social Performance Compensation Project have been proposed to serve as the institutional basis for a comprehensive law on SIBs, and the discussions of other relevant bills still continue.

In Seoul, the Social Performance Compensation Project for the Seoul Metropolitan City Child Welfare Facilities, the first

of its kind in Asia, has been approved and promoted since around 2016. The project successfully achieved its intention of improving the emotional and cognitive abilities of children in child welfare facilities. Further, the project has not only recovered the principal, but also generated profits and allowed for reinvestment in other projects. Similar social performance compensation projects are underway in other provinces to lower the number of individuals reliant on the Basic Livelihood Security Program and to rehabilitate the elderly with mild cognitive impairment pre-dementia.

Law stated - 21 June 2022

### Social and development impact bonds

Does your jurisdiction regulate 'pay for success' investing models such as social impact bonds and development impact bonds? Apart from specific regulation, are any of these mechanisms in force or in progress in your jurisdiction?

As with any other types of bonds, bonds with 'pay for success' investing models are governed by the Capital Markets Act. Around 2021, the Financial Services Commission announced that the introduction of sustainability-linked bonds (SLB) would be an intermediate financial objective and that it is studying the related trends together with the Korea Exchange (KRX). The Ministry of Economy and Finance is seeking to implement SLB.

Although socially responsible investment (SRI) bonds have been actively issued for years, SLB bonds that link ESG success with financial terms such as interest rate (wherein the interest rate increases if the bond-issuer fails to achieve the ESG goal) have yet to be institutionalised in the local bond market. Recently, the KRX announced in a press release that it plans to list SLB bonds by the end of 2022.

Law stated - 21 June 2022

### Crowdfunding

Does your jurisdiction regulate crowdfunding initiatives aimed at scaling up companies with social or environmental objectives?

Of the investment-model crowdfunding initiatives, equity-based crowdfunding initiatives and their brokers have been regulated as small online investments and their brokers under the Capital Markets Act since 2016. Without such small online investment and brokerage scheme, equity-based crowdfunding would have to satisfy the conventional requirements of public offering under the Capital Markets Act, which tend to be stricter. Under the relatively loose requirements of the scheme, crowdfunding for social or environmental objectives became more convenient.

On the other hand, donation-based (non-investment model) crowdfunding (including sponsorship for social and environmental objectives) is governed by the Act on Collection and Use of Donations (the Donations Act) in general. Under the Donations Act, social or environmental goals are permitted as a purpose of solicitation of donations.

Law stated - 21 June 2022

## UPDATE AND TRENDS

### Update and trends

What are the key recent developments, hot topics and future trends in your jurisdiction relating to social finance, purpose-driven companies and the impact economy in general? Are there any recent studies and initiatives to identify or quantify these market sectors? Are there any new or proposed regulations or taxonomies in this regard?

With the rapid rise of ESG, businesses, investors, and the government are all showing great interest in ESG but with different objectives. While businesses are concerned about how to integrate ESG in their business practices, investors are eager to identify the target companies oriented towards ESG. The government is keen to prevent greenwashing.

There is a gradual movement to measure and monetise social values, namely, the values that businesses embrace to alleviate social problems that their stakeholders face. For instance, a Korean conglomerate has been conducting an experiment to reward the social values created by its employees with cash points and to allow them to be used for purchase of goods in real life.

*Law stated - 21 June 2022*

### **Recommendations**

Do you have any recommendations for legal models, fiscal treatment and public procurement in your jurisdiction in relation to social finance and purpose-driven companies? Do you see a need for regulatory intervention or is the market capable of self-regulation in these sectors?

Issues related to social economy and impact investment started to draw attention in the early 2000s, but they were mainly focused on social contribution and philanthropy. From the beginning of 2020, the ESG movement has swept Korea and sustainability has become a social trend, but in practice, the government, investors, and businesses are all somewhat confused as to what they should do. Given the situation, rather than suggesting and conforming to a rigid model, businesses are encouraged to respond flexibly to the changing circumstances and to create practical social values, while the government should be responsible for navigating and offering the right directions to businesses and for helping society maintain sustainability.

*Law stated - 21 June 2022*

## Jurisdictions

	<b>Australia</b>	Geraldine Grace
	<b>Chile</b>	Carey
	<b>China</b>	The Fuguan Law Firm
	<b>Costa Rica</b>	EY Law Global
	<b>Egypt</b>	Shahid Law Firm
	<b>Finland</b>	Castrén & Snellman
	<b>Italy</b>	Legance - Avvocati Associati
	<b>Japan</b>	Anderson Mōri & Tomotsune
	<b>Luxembourg</b>	CMS Luxembourg
	<b>Poland</b>	WKB Wiercinski Kwiecinski Baehr
	<b>Portugal</b>	PLMJ
	<b>South Korea</b>	Jipyong
	<b>Switzerland</b>	Homburger
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