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Protocol – Session 2
Perils of Limiting the Coverage of Mandatory Pay Disclosure: The Korean Experience

Speaker:	Woochan Kim
Discussant:	Tobias Tröger

Woochan Kim is a Professor of Finance at Korea University Business School (KUBS). Outside of school, he is the Director of Economic Reform Research Institute (ERRI) and the Solidarity for Economic Reform (SER). Previously, he was a member of Korea National Pension Fund's Proxy Voting Advisory Committee. Dr. Kim holds a B.A. degree in International Economics from Seoul National University and a Ph.D. degree in Public Policy from Harvard University. His current area of research includes corporate governance, pension fund management, and international capital flows.

Tobias Tröger holds the Chair of Private Law, Trade and Business Law, Jurisprudence at Goethe-University Frankfurt since 2011. His research interests include contract law and contract theory, corporate law (particularly, comparative corporate governance and corporate finance), banking law and the economic analysis of law. Tobias Tröger is Program Director Corporate Finance and Corporate Governance at the Research Center Sustainable Architecture for Finance in Europe (SAFE) and Co- Director of the Center for Advanced Studies Foundations of Law and Finance. He is an advisor to the European Parliament on matters regarding the Single Supervisory Mechanism (SSM) responsible for the euroarea's largest banks.

Protocol of Session 2, Saturday 8 June (11.30 a.m. – 00.30 p.m.)

In the first part of the session, a paper by Woochan Kim and Jinhyeok Ra was presented. The paper studies the danger of limiting the coverage of mandatory pay disclosure. By exploiting an exogenous shock in the form of the 2013 rule change in Korea, it is found that the rule's restrictive coverage, confined to board members with total annual pay exceeding 500 million Korean won, led a large fraction of executives to evade disclosure through deregistration (i.e., stepping down from the board) or pay-cuts. It is also found that such evasion is mostly carried out by family executives in firms with high executive-to-worker pay ratios. If the original pay level is close to the threshold, it is found that family executives choose pay-cuts over deregistration, as their preferred means of evasion. Additional support for the findings is provided by reactions to another bill passed in 2016. The bill expands the mandatory pay disclosure coverage so that the firms' five highest paid executives, irrespective of whether they are members of the board, are affected. Out of 28 family directors, which registered after the 2013 change, four re-registered in the aftermath of the change introduced in 2016.

During the second part of the session, the discussion, Tobias Tröger expressed his appreciation for the paper's high quality and clean setup. Subsequently, he briefly summarized the content and strategy of the paper, and pointed out a potential concern about the explanatory power of the papers' findings. In fact, it was challenged if the necessary condition of Difference-in-Difference regressions of an existing pre-treatment common trend between control and treatment group is met. By referring to a graphic comparing family and non-family executives' reactions, it was shown that concerning family executives only, an increase in deregistration fractions already occurred before the bill had been passed. In response, Woochan Kim offered a potential explanation of this observation by referring to the small size of the sample. Moreover, more in-depth information on the legal and political landscape in Korea during the observation period was considered to be valuable by the discussant, and related literature emphasizing the importance of the structure of employee compensation aside from its absolute heights is mentioned. A potential future research question asking for potential welfare effects of regulations on mandatory pay disclosures was additionally pointed out.