

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 94279 / February 17, 2022

ADMINISTRATIVE PROCEEDING
File No. 3-20780

In the Matter of

KT CORPORATION,

Respondent.

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against KT Corporation (“KT” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over Respondent and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds¹ that:

SUMMARY

1. This matter arises out of KT Corporation's ("KT") violations of the books and records and internal accounting controls provisions of the Foreign Corrupt Practices Act of 1977 (the "FCPA") [15 U.S.C. 78dd] in the Republic of Korea and Vietnam. KT lacked sufficient internal accounting controls over expenses, including executive bonuses and purchases of gift cards, which enabled managers and executives to generate slush funds. In addition, the misconduct involved former high-level managers and executives and occurred under circumstances whereby KT had no relevant anti-corruption policies or procedures with respect to donations, employment candidates, vendors, subcontractors, or third-party agents. In certain instances, this allowed KT employees to provide benefits improperly to government officials and to seek business from government customers. As a result of this misconduct, KT violated the books and records and internal accounting controls provisions of the FCPA.

RESPONDENT

2. **KT Corporation** ("KT") is South Korea's largest comprehensive telecommunications operator, with its principal executive offices in Seoul, South Korea. KT's American Depositary Shares are registered with the Commission pursuant to Section 12(b) of the Exchange Act and trade on the New York Stock Exchange. KT files periodic reports, including Form 20-F, with the Commission pursuant to Section 13(a) of the Exchange Act and related rules thereunder.

FACTS

Conduct in Korea

Slush Funds

3. From at least 2009 through 2017, high-level executives of KT maintained slush funds, comprised of both off-the-books accounts and physical stashes of cash, in order to provide items of value to government officials, among others. These included gifts, entertainment and, ultimately, illegal political contributions to members of the Korean National Assembly serving on committees relevant to KT's business.

4. From 2009 to 2013, a KT then-Executive Officer and another KT senior executive orchestrated a scheme through which the Executive Officer approved inflated bonuses to company

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

officers and executives, which was then returned to the Executive Officer in cash and used to generate a slush fund of approximately \$1 million. Some of the funds were held in a KT executive's personal bank account, while the cash was stored in a safe on the sixteenth floor of KT's offices in Bundang. The Executive Officer used the cash as a slush fund for gifts to, among others, government officials with the ability to influence KT's business. No one at KT maintained records of the recipients of the gifts, although other KT executives knew about the conduct. KT booked the slush fund amounts as executive bonuses, even though the money was used for gifts and for payments to government officials.

5. In October 2013, there were media reports about the bonus scheme, resulting in the resignation of the Executive Officer in November 2013 and criminal charges² in April 2014. As a result, the bonus scheme became impossible to maintain. Rather than cease the misconduct and institute improved internal accounting controls to detect and prevent such schemes in the future, KT officials instead devised a new method to continue generating a slush fund. From 2014 to 2017, KT's Corporate Relations ("CR") Group purchased gift cards, which were then converted to cash and used for a new slush fund. On numerous occasions, a CR senior manager ("Manager A") told a CR midlevel manager ("Manager B") how much cash to obtain. In response, using an internal purchasing system, Manager B purchased gift cards from a particular vendor ("Vendor"). When buying gift cards to convert to cash, Manager B inserted a tag phrase, "CR Case Benchmarking," in the purchasing system as the purported purpose for the purchase.

6. When the cash was ready, Vendor called Manager B as he arrived outside the KT office building where Manager B worked. Manager B then met Vendor in a van in the parking lot next to the KT building. Vendor gave Manager B a paper bag containing a large manila envelope of cash, corresponding to the value of the gift cards purchased, less a commission for Vendor. Manager B then gave the cash to Manager A, who placed it in a double-locking cabinet.

7. Over time, Manager A passed the cash to KT officers and managers, with the understanding that they would transfer the funds electronically to the contributions accounts for various Korean lawmakers. Once the transfer was made, a CR employee would inform the particular lawmaker's aide that the contribution came from KT. This scheme was used to evade Korea's Political Funds Act, which prohibits corporations from making political contributions. Most of the funds went to lawmakers in the National Assembly who sat on committees with the ability to impact the telecommunications industry and KT's business.

8. The individual contributions ranged from KRW 1M (\$893) to KRW 14M (\$12,500). KT ranked the lawmakers (A, B, and C) according to the amounts that the CR Group anticipated spending on each one. CR managers reported the amounts and recipients of the contributions to upper management. The political contributions amounted to approximately \$393,574, and were given to 99 Korean lawmakers and candidates. The CR Group generated an additional \$910,211 for improper gift and entertainment expenses, for a combined total for the slush fund of \$1.3 million.

² After multiple appeals, the Executive Officer was found not guilty of embezzlement from KT, on the ground that he used much of the slush fund for the benefit of KT, rather than for personal use.

9. KT booked the gift card expenses used to fund the slush fund as either “research and analysis” or “entertainment,” which was inaccurate or did not fairly reflect the transactions. In November 2021, Korean authorities indicted KT and fourteen high-level executives for criminal violations in connection with the gift card scheme.

Payments at the Behest of Government Officials

10. Between 2015 and 2016, KT made payments of over \$1.6 million to three organizations at the request of high-level government officials. KT paid \$972,616 to Foundation A, described as a foundation for the promotion of Korean culture, and \$603,791 to Foundation B, described as a foundation for the promotion of sports. A close associate of a senior Korean government official set up both foundations, and the payments were made at the behest of the Blue House, Korea’s presidential residence and office. The third payment, of \$88,420 to another organization, Association C concerning e-Sports, was solicited by a member of Korea’s National Assembly who served on legislative committees important to KT’s business. All of these payments were booked incorrectly, either as charitable donations or as a sponsorship.

11. Despite the circumstances – direct requests for payment coming from or on behalf of high government officials – KT took no steps to determine if the payments were legitimate donations, rather than illicit payments made at the behest of government officials. Further, neither Foundation A nor B was established when the donation request was made or when KT managers agreed to make the payments.

12. In 2015 and 2016, a Blue House official urged, and KT senior management agreed, to hire two advertising executives with personal connections to the Blue House and then, once hired, transferred them to more desirable positions. KT also altered its criteria for outside advertising agencies in order to hire a new agency established by the same close associate of a high Blue House official who had established Foundation A and Foundation B. The requesting Blue House official was clear with KT senior management that “the VIP” – whom KT officials understood was the Blue House official’s ultimate boss – “had major concerns about KT’s advertisements” and that these moves were “important to the VIP.” Notwithstanding these circumstances, and without conducting due diligence on the individuals or the agency, KT paid the two individuals a total of \$454,009 in salaries and the advertising firm a total of \$5.88 million in fees.

Conduct in Vietnam

13. Between 2014 and 2018, KT employees internally discussed providing money to third parties connected to government officials in Vietnam in order to obtain contracts for two projects. The first project was with the People’s Committee of Quang Binh province in Vietnam to construct a solar cell power system (“Solar Power Project”), and the second was with the Vietnam Ministry of Labor, Invalids and Social Affairs to provide hardware, software, and training for five vocational colleges (“Vocational Colleges Project”). At the time, KT lacked sufficient internal accounting controls regarding third parties and no relevant compliance policies regarding due diligence. Moreover, KT took no meaningful steps in response to allegations of improper payments in connection with the contracts.

Solar Power Project

14. In 2014, KT entered into an arrangement with a construction company to pay a bribe of \$95,031 to a high-level official of Vietnam’s Quang Binh province in order to obtain the contract for the Solar Power Project. On September 10, 2014, a junior employee in KT’s Hanoi office told an employee of a subcontractor to the construction company, “KT Hanoi will handle the matter of deliver[ing] money to the right person. Only KT Hanoi office now can handle this matter because others couldn’t make it. We will do it in the right way and make it work. So please arrange to transfer the money within today or before next Monday.”

15. The construction company wired money to the employee’s bank account, which the employee then withdrew as cash. The employee and a construction company subcontractor representative traveled to the Sun Spa resort in Quang Binh, where the government official received the money. Subsequently, a member of the sales team described the payment as “a rebate to the project owner.”

16. In 2018, the construction company sought reimbursement from KT for the bribe payment, described as “expenses for engaging in sales activities with the ordering organization . . . (\$95K),” as well as other expenses. KT paid the construction company approximately \$200,000 to settle all the claims, including reimbursement for the bribe payment, and it booked the payment as “Support/consulting for performance of the business (completed).”

17. As part of the Solar Power Project, the government customer contracted to pay KT an advance payment in January 2015. As of March 2015, the government customer had not made the payment, due to delays in the Ministry of Finance. A KT senior vice-president (“SVP”) instructed a senior employee in the Hanoi office “to give money to the public officials so that they can speed up the performance of their duties.” Using a KT Hanoi office credit card, the senior employee conducted four cash-back transactions at a Hanoi restaurant, and he used the cash to pay the Ministry officials approximately \$3,000. The effort was successful and resulted in the government transmitting the advance payment to KT.

Vocational Colleges Project

18. In 2013-2014, KT participated with a consortium to bid on the Vocational Colleges Project. The customers were the Vietnam Ministry of Labor, Invalids and Social Affairs (“MOLISA”) and the General Department of Vocational Training (“GDVT”). The Project Management Unit (“PMU”) within MOLISA coordinated the project.

19. A high-level official at GDVT (“Official 1”) introduced KT to a Vietnamese company to serve as a local agent. KT learned “[t]he possibility of winning the business appears higher when using the company designated by [Official 1] as the local agent in the bid.” In addition, KT learned from its original consortium partner (“Partner 1”), which was to pay the agent fee, that 10% of the project cost would go to the agent, who would pass on 7% of the project cost to Official 1. Pre-bid, the agent served as a communication channel between KT’s consortium and government officials.

20. In May 2015, Partner 1 informed KT that it did not want to be responsible for the agent’s fee due to the risk involved. KT agreed to reorganize the consortium and assume responsibility for paying the agent’s fee. KT and the agent agreed that the fee would be 8.5%, which included \$550,000 for Official 1, who planned to retire soon and did not want to wait for the project to be completed before receiving his share.

21. KT arranged for a subcontractor in the consortium to become a consortium partner, as well (“Partner 2”), and KT tasked Partner 2 with the responsibility of paying the agent fee. The purpose of the arrangement was to distance KT from the agent, as well as to conceal the agent from KT’s agent review process. While the agent review process was a financial risk review, not an anticorruption review, the KT managers involved preferred to avoid any questions about KT’s relationship with the agent. Paying the agent through Partner 2 enabled KT managers to bypass the review.

22. On May 19, 2015, Partner 2 sent KT a quotation that included “Site survey and Local legal & Technical Consulting.” Within this item, Partner 2 listed the agent fee of approximately \$735,000, cloaked as “Site survey for installation.” The KT sales lead explained to the SVP, “As for the fee for the agent, . . . it would not be separately indicated Instead, it will be included in the estimate for additional tasks based on [Partner 2]’s consent.” Thus, KT managers understood that this fee was for the agent and that it was concealed to avoid review. On May 28, 2015, KT executed the contract for the Vocational Colleges Project.

23. When KT had difficulty with the government customer, it turned to the agent for assistance. For example, on June 6, 2015, the SVP emailed the sales team:

It is ridiculous that [GDVT] approval is going to take 1 week. Through [the agent], make [a PMU official] get the approval in one day. Do everything and anything to have this done. . . . Immediately push them to prepare the required documents for the [GDVT] approval. Also use [the agent] when you do this.

....

You need to discuss these matters tomorrow, Sunday. When it is difficult, use [the agent] to move [a PMU official].

At least one interim payment was made to the agent for these services.

24. In January 2017, KT paid Partner 2 approximately \$775,000 for undocumented “Consulting Service,” which was actually reimbursement for payments Partner 2 had made to the agent in order to bribe Official 1.

LEGAL STANDARDS AND VIOLATIONS

25. Under Section 21C(a) of the Exchange Act, the Commission may impose a cease and-desist order upon any person who is violating, has violated, or is about to violate any provision of the Exchange Act or any rule or regulation thereunder, and upon any other person that is, was, or would be a cause of the violation, due to an act or omission the person knew or should have known would contribute to such violation.

26. As a result of the conduct described above, KT violated Section 13(b)(2)(A) of the Exchange Act, which requires issuers to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the issuer. [15 U.S.C. § 78m(b)(2)(A)].

27. Further, as a result of the conduct described above, KT violated Section 13(b)(2)(B) of the Exchange Act, which requires issuers to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management’s general or specific authorization; (ii) transactions are recorded as necessary (I) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (II) to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management’s general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. [15 U.S.C. § 78m(b)(2)(B)].

COOPERATION AND REMEDIATION

28. In determining to accept the Offer, the Commission considered those remedial acts undertaken by Respondent and the cooperation afforded the Commission staff. KT did not self-report the conduct described in this Order, but did cooperate with the Commission’s investigation by providing translations or summaries of some relevant documents, providing certain facts developed in its own internal investigation, and making certain current and former employees available to the Commission staff, including those who needed to travel to the United States.

29. KT’s ongoing remedial efforts included termination of certain employees responsible for the misconduct and introducing enhancements to its internal accounting controls. KT strengthened its ethics and compliance organization; enhanced its code of conduct, and policies

and procedures regarding expenses; and increased training of employees on anti-bribery issues. Nonetheless, KT continues to remediate its process around anticorruption risk-assessments, the effectiveness of its audit program, and other internal accounting controls relating to third parties and procedures for regular testing of its internal accounting controls.

DISGORGEMENT AND CIVIL PENALTIES

30. The disgorgement and prejudgment interest ordered in paragraph IV.C. is consistent with equitable principles, does not exceed Respondent's net profits from its violations, and returning the money to Respondent would be inconsistent with equitable principles. Therefore, in these circumstances, distributing disgorged funds to the U.S. Treasury is the most equitable alternative. The disgorgement and prejudgment interest ordered in paragraph IV.C. shall be transferred to the general fund of the U.S. Treasury, subject to Section 21F(g)(3) of the Exchange Act.

UNDERTAKINGS

Respondent has undertaken to:

1. During a two-year term as set forth below, Respondent shall report to the Commission staff periodically, at no less than six-month intervals, the status of its remediation and implementation of compliance measures. During this two-year period, should Respondent discover credible evidence, not already reported to the Commission staff, that questionable or corrupt payments or questionable or corrupt transfers of value may have been offered, promised, paid, or authorized by Respondent, or any entity or person acting on behalf of Respondent, or that related false books and records have been maintained; or that Respondent's internal controls failed to detect and prevent such conduct, Respondent shall promptly report such conduct to the Commission staff.
2. During this two-year period, Respondent shall (1) conduct an initial review and submit an initial report, and (2) conduct and submit at least two follow-up reviews and reports, and (3) conduct and submit a Final Report, as described below:
 - a. Respondent shall submit to the Commission staff a written report within 180 calendar days of the entry of this Order setting forth a complete description of its Foreign Corrupt Practices Act ("FCPA") and anti-corruption related remediation efforts to date, its proposals reasonably designed to improve the policies and procedures of Respondent for ensuring compliance with the FCPA and other applicable anticorruption laws, and the parameters of the subsequent reviews (the "Initial Report"). The Initial Report shall be transmitted to Tracy L. Price, Deputy Unit Chief, FCPA Unit, Division of Enforcement, United States Securities and Exchange Commission, 100 F St. NE, Washington, DC 20549-5631. Respondent may extend the time period for issuance of the Initial Report with prior written approval of the Commission staff.

- b. Respondent shall undertake at least two follow-up reviews, incorporating any comments provided by the Commission staff on the previous report, to further monitor and assess whether the policies and procedures of Respondent are reasonably designed to detect and prevent violations of the FCPA and other applicable anti-corruption laws (the Follow-up Reports). The first Follow-up Report shall be submitted by no later than 180 days after the Initial Report. The second Follow-up Report shall be submitted by no later than 360 days after the submission of the Initial Report.
 - c. Respondent shall undertake a final review to further monitor and assess the operation of its FCPA and anti-corruption compliance program and whether Respondent's policies and procedures are reasonably designed to detect and prevent violations of the FCPA and other applicable anti-corruption laws (the "Final Report"). The Final Report shall be submitted by no later than 540 days after the submission of the Initial Report. Respondent may extend the time period for issuance of the Follow-up Reports with prior written approval of the Commission staff.
3. The periodic reviews and reports submitted by Respondent will likely include confidential financial, proprietary, competitive business or commercial information. Public disclosure of the reports could discourage cooperation, impede pending or potential government investigations or undermine the objectives of the reporting requirement. For these reasons, among others, the reports and the contents thereof are intended to remain and shall remain non-public, except (1) pursuant to court order, (2) as agreed to by the parties in writing, (3) to the extent that the Commission determines in its sole discretion that disclosure would be in furtherance of the Commission's discharge of its duties and responsibilities, or (4) is otherwise required by law.
4. Certify, in writing, compliance with the undertaking(s) set forth above. The certification shall identify the undertaking(s), provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. The certification and supporting material shall be submitted to Tracy L. Price, Deputy Unit Chief, FCPA Unit, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent KT's Offer.

Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 21C of the Exchange Act, Respondent cease and desist from committing or causing any violations and any future violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.
- B. Respondent shall comply with the undertakings enumerated in Section III above.
- C. Respondent shall, within 30 days of the entry of this Order, pay disgorgement of \$2,263,821, prejudgment interest of \$536,457, and a civil money penalty in the amount of \$3,500,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment of disgorgement and prejudgment interest is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600, and if timely payment of a civil money penalty is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717.
- D. Payment must be made in one of the following ways:
 - (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
 - (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
 - (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying KT Corporation as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Tracy L. Price, FCPA Unit Deputy Chief, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549-5631.

E. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

F. Respondent acknowledges that the Commission is not imposing a civil penalty in excess of \$3,500,000 based upon its cooperation in a Commission investigation and related enforcement action. If at any time following the entry of the Order, the Division of Enforcement ("Division") obtains information indicating that Respondent knowingly provided materially false or misleading information or materials to the Commission, or in a related proceeding, the Division may, at its sole discretion and with prior notice to the Respondent, petition the Commission to reopen this matter and seek an order directing that the Respondent pay an additional civil penalty. Respondent may contest by way of defense in any resulting administrative proceeding whether it knowingly provided materially false or misleading information, but may not: (1) contest the findings in the Order; or (2) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Vanessa A. Countryman
Secretary