

## Summary of Corporate Governance roundtable 11<sup>th</sup> of May 2023 on the Revision of the 'G20/OECD Principles of Corporate Governance'

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### Highlights

- The OECD has revised its Principles of Corporate Governance due to rapid ESG and technology developments, a decline in listed companies, and increased focus on sustainability.
  - Ten policy priorities have been identified, including ESG risk management, the impact of digital technologies, and diversity in corporate leadership.
  - The most important revision is the addition of a new chapter focusing on sustainability and resilience.
  - Further major revisions promote sustainability-related disclosure, clear regulatory frameworks, the rights of bondholders, and digital enhancements for corporate governance.
  - The review emphasises the responsibilities of the board, including material sustainability risks, shareholder engagement, and diversity considerations.
  - Responses by experts are positive.
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### Revision of the G20/OECD Principles of Corporate Governance

#### *Background*

After a request during the G20 Rome Summit in 2021, the OECD has started to review its Principles of Corporate Governance, which was done before in 2004 and 2015. This demand rose mainly from the fast-moving and disruptive ESG and technology developments. Other key reasons for the review were:

- A structural decline in the number of listed companies in most advanced markets.
- An increased AUM held by institutional investors with the use of passive index investment strategies.
- Investors' increased focus on material sustainability risks and opportunities.

Based on this, the OECD identified the 10 concrete policy priorities found underneath. With this, they considered the original three strategic priorities of the principles, namely, to promote access to finance, innovation and entrepreneurship, to provide a framework to protect investors, and to support corporate sector sustainability and resilience. For the latter the new review adds a dedicated chapter.

1. The management of climate change and other ESG risks.
2. The growth of new digital technologies and emerging opportunities and risks.
3. Corporate ownership trends and increased concentration.
4. The role of institutional investors and stewardship.
5. Crisis and risk management.
6. Excessive risk taking in the non-financial corporate sector.
7. The role and rights of debtholders in CG.
8. Executive remuneration.

9. The role of board committees.

10. Diversity on boards and in senior management.

### *Results*

After the two years review the overall direction of the changes better reflected the strategic priorities of the Principles. Most concretely because of the newly added chapter on sustainability and resilience, found underneath, in addition to five key revisions:

1. Sustainability and resilience: this new chapter includes new principles on:
  - a. Disclosure: Promote sustainability-related disclosure and the use of internationally recognised standards that facilitate comparability. Guidance on the concept of materiality.
  - b. Board responsibilities: Clarify that material sustainability risks and opportunities must be considered by the board, and highlight the importance of the “business judgement rule” for long-term investments.
  - c. Shareholders and stakeholders: Promote dialogue in the companies’ important decisions on sustainability.
2. Ensuring the basis for an effective CG framework: Promote a clear regulatory framework for company groups and improve the disclosure of capital structures, group structures and their control arrangements.
3. Institutional investors, stock markets and other intermediaries: Address the increasing importance and impact of corporate debt and bondholders in markets, and the rights of bondholders.
4. Disclosures and transparency: Address the growing use of stewardship codes as a tool to encourage shareholder engagement and increase disclosure requirements for institutional investors.
5. The responsibilities of the board: Reflect the growing use of board committees (e.g. audit, remuneration, nomination) and emphasise risk management by the board, and increasing diversity considerations.
6. The rights and equitable treatment of shareholders and key ownership functions: Strengthen corporate governance practices and supervision with digital technologies, including for remote participation in shareholder meetings.

### *Positions*

Patricia Pollard, of the US Department of Treasury, said the US supports the work of the OECD Committee on Corporate Governance. According to her sound CG is essential to align incentives, ensure transparency and accountability, which in turn allows for the efficient allocation of capital nearby supporting economic growth. The revisions support the higher demand of information by investors, and speak to an uptick to digital technologies used, which has consequences for both investor engagement and the management for digital security risks. Lastly, Pollard states that they also speak to the decline in number of companies going public by highlighting the need to improve public capital access, while preserving the highest standards of investor protection.

Kerrie Waring, CEO of ICGN, thinks the revisions will serve the world well and are a feat in achieving the sustainable development goals. “Fairness, accountability, responsibility, and transparency are the pillar upon which financial value is preserved and enhanced, allowing

our economies to thrive and people to prosper.” She emphasises that both the ICGN and the OECD Principles are cited in the CSRD, implying their importance for ground-level regulation.

Luca Enriques, professor of Corporate Governance at the University of Oxford, also notes the importance of global good governance and is therefore in support of the necessity of updated OECD Principles. As an example he mentions that all the fallen banks of the last months all had the same fundamental flaw: poor governance standards. Mostly deficient risk management, excessive focus on profitability, and insufficient board expertise (“Board independence is nothing without expertise because you cannot monitor what you do not understand”). He also mentioned that regulator mistakes play a role, stating that it is surprising how we keep learning and unlearning the relevance of good Corporate Governance. Lastly, he explains that scientific studies thoroughly support the importance of good governance principles, although we must be weary of becoming too resilient at the cost of flexibility.

Mathias Cormann, Secretary-General of the OECD, says that the revised principles ensure incentives and oversight for the sustainable transition of our economies. He furthermore states that the principles will increase appropriate checks and balances, sound risk management frameworks and protection of investors, the responsibility of the board to oversee sustainability, and the disclosure on bond covenants and more clarity on bondholder rights.

Monica de Virgiliis, CEO of Snam, states that it is increasingly important for boards to focus on both short- and long-term developments, and value creation for society. She pleads for a consistency of risk management systems throughout management and board.

### *Timeline*

The presented revisions have already been accepted by both the OECD and the G20 and will be published in Q3.

Next year the OECD will start the revision of its Guidelines on Corporate Governance of State-Owned Enterprises. A roadmap of the process is currently not available yet.