Roundtable on
Corporate Governance and increasing public access to wealth creation

Paris, 16 October 2018

Good corporate governance, across all sectors of the economy, is a fundamental prerequisite for the long-term sustainability of businesses, the stability of capital markets, and sustainable growth. Corporate governance affects every step of the investment cycle and should enable business to take risk to grow and create value, which requires access to and effective allocation of capital. It also enhances decision-making by public sector entities, and a better allocation of finite resources to grow and create value for society. The role of the OECD is therefore increasingly important to ensure sound corporate governance arrangements remain supportive of business sector dynamics.

Recent trends in capital markets show a clear link of wealth creation and corporate governance. We observe among others a declining number of listed companies and a sharp growth in private markets, increasing rewards afforded to successful companies with fewer employees and different stakeholders, a rise of debt as a favored asset class by investors, and increasingly complex investment chains.

To shed further light on how to increase participation in equity markets, and corporations’ access to capital to enable more broad-based wealth creation, the Business at OECD Corporate Governance Committee organized an interactive roundtable discussion with the participation of selected members of the OECD Corporate Governance Committee and Secretariat.

Participants discussed both overarching and specific questions related to increasing participation in equity markets and enhancing corporations’ access to capital as well as the role of robust corporate governance in this process. The following is a summary of key issues raised at the roundtable, including suggestions for further OECD work in this area.
Proposed role for the OECD

Based on the outcome of the discussions, we see an important role for the OECD to work on the link between corporate governance and public access to wealth creation to encourage broader public participation and foster trust. Such analysis could be underpinned by tracking IPO developments and other sources of equity finance across regions.

This would shed light on the important role of equity for the long-term growth of companies and retirement regimes, including the role of tailored incentives. It would also be of interest to SMEs and family-owned companies as increased attention is being given to how such companies could benefit from an enabling corporate governance framework while taking into account their specific challenges. With regard to specific next steps, we recommend further work by the OECD in the following areas:

- Develop an index of market participation to highlight connections between broad capital market participation and the institutions of liberal economies.
- Taking into account the need to reduce compliance costs, explore how governance codes could also benefit certain unlisted companies.
- Identify and address the barriers to IPOs particularly during the first years of listing, smaller IPOs and other funding sources.

Please see the attached summary on key issues discussed at the roundtable.
Setting the scene

- Good corporate governance is essential, bearing in mind that it is not an end in itself but a means to support economic efficiency, sustainable growth and financial stability. There is a close link between capital formation and economic growth. Private and public equity markets complement each other.

- Stock markets have a traditional source of companies to finance growth. However, easier access to other sources of financing combined with the increased costs and requirements for public listings have led to a decline in the number of listed companies in some parts of the world. While there are differences from one region of the world to another, today a number of companies rely less on the equity market, raising inexpensive debt financing related to low interest rates.

- From a societal point of view, there are clear macroeconomic advantages for companies to access capital markets and for the public to benefit from the returns that successful companies generate.

- Overarching questions on the connection between capital markets, our societies and democracy at large deserve increased attention. Business cannot succeed if society fails, and more people need to be involved in wealth creation. In the light of populist discussions in several parts of the world, both business and government can benefit from a discussion on how society can contribute to wealth creation and what role different groups of companies can play in this respect.

The connection between capital markets and our democracies

- Good governance clearly matters for both private companies and state-owned enterprises in OECD countries and in emerging economies. In addition to looking at issues such as fostering transparency and respect of shareholders, there is a clear interest to look at how financial markets and capital formation interact with social coherence.

- A thorough analysis of how capital markets can contribute to liberal democratic institutions and how diversified ownership can promote social cohesion and address inequality would be helpful. This would be based on the development of an index of market participation that would highlight connections between broad capital market participation and the institutions of liberal economies.

Good governance for non-listed smaller companies

- There is a huge variety among SMEs with different governance regimes, but often facing common challenges. While it is important to recognize that company size matters and that governance formalization depends on different factors such as funding structure and type of industry, SMEs generally benefit from increased understanding of governance elements and a long-term vision, which is often missing. Private equity as well as innovative ways of finance, such as crowd funding, can be also be considered.

- To make good governance of concrete value for smaller non-listed companies, it must be clearly linked to the long-term success of business so that it is not viewed as an abstract concept. Survey results have shown that leadership of smaller companies understands the importance of strategy. Time and resource constraints show that governance mechanism would help to put specific action points into practice.
The role of corporate governance codes

- Codes are widely recognized as an important tool to improve corporate governance for listed companies. In addition to fostering good governance, they provide investors with the information for an informed decision about their investment. It is important that the codes reflect the need for flexibility through “comply or explain”. The principles developed in these codes can also benefit certain unlisted companies.

- New developments, including new reporting requirements, are a sign of the recognition of the role companies have to their shareholders, stakeholders and society. Codes are not just about investor protection or management advice, but also about the role of companies to their stakeholders. However, due attention must be given to compliance costs in order not to overly affect business dynamism.

Restoring trust

- The importance of corporate governance and access to equity should also be viewed in the broader context of our economic system facing the challenge of many young people feeling that they have been left behind.

- The decline of listed companies in the UK water sector was given as an example of an area where trust needs to be restored as performance is starting to fall and the public does not always understand the highly complex ownership structures. When private companies are providing a public service, public scrutiny is all the more important. Codes can contribute to promoting participation and fostering cooperative approaches and a more stakeholder-centric focus.

Ensuring sustainable retirement systems

- The returns of longer-term investments, both in listed and private companies, are essential for well-functioning retirement systems. The fact that public pension systems will not be able to provide satisfactory pensions over the longer term underlines the importance of political support for private retirement savings.

- The vital role of equity investment in the retirement systems worldwide cannot be underestimated. The challenges of the public pension system call for political support for private retirement savings, also through tax incentives. Both public and private companies should have a strong corporate governance culture, with appropriately different approaches.

Tracking global developments

- Despite the general strength of global IPO markets after many positive years, significant differences can be observed across regions. Geopolitical tensions, trade issues, and Brexit have led to increasing uncertainty this year. However, IPOs by unicorn companies and cross-border listings have been remarkable. (see EY report on global IPO trends).

- Tracking global developments of IPOs is important as society needs access to capital for wealth creation, innovation and retirement. A better understanding of different IPO trends across regions (strong IPOs in Asia while there has been a significant drop in the EMEIA region), will help to draw lessons regarding the underlying reasons and conditions.


**How to facilitate smaller IPOs**

- Regulatory frameworks should be flexible enough to meet the needs of different corporations and to provide the right incentives for an efficient allocation of resources. This is among others the case for SMEs for which high compliance costs, lack of market culture, and the complexity of the framework are particular challenges.

- There is a need to consider a clearer distinction between regulated markets and other trading venues, the possibility of a simplified regime (e.g., access to capital, disclosure), consistent regulatory policy as well as a rational and conducive regulatory policy for SMEs. A temporary simplified regime for smaller IPOs could be considered as an option and capacity building should be supported.

**Other sources of equity provision**

- Given the volatility of listed equity markets, alternative sources of funding like private equity funds and crowd funding should be considered as increasingly relevant avenues for long-term financing.