Directions of the 2021-2022 program of the work of the OECD Corporate Governance Committee

Initial comments from Business at OECD

1. The changing policy environment

In the light of the changing policy environment, the importance of good corporate governance as a fundamental prerequisite for long-term sustainability of business, the stability of capital markets and sustainable long-term growth is more important than ever. Business at OECD therefore welcomes the opportunity to contribute to the discussions on the future program of work of the OECD Corporate Governance Committee early in the process.

We need a dynamic business sector to boost productivity and growth. At the same time, we need a business sector that can be trusted for its commitment to long-term value creation and responsible business conduct. Generating trust is a key factor for establishing conditions of sustainable development, productive business relationships and creating value for society.

As the world is undergoing profound changes, which affect the number of listed companies, business models and the complexity of value chains, the role of the OECD to analyze new trends and ensure that corporate governance policies are supportive of long-term investment and corporate access to capital is becoming more and more important.

As recognized in the background paper, one important development is the decrease in the number of listed companies in many advanced economies, raising questions about the loss of opportunities for large segments of the population to participate in the wealth creation of privately held companies.

In this context and as highlighted at the roundtable we organized in October 2018, we see an important role for the OECD to work on the link between corporate governance and public access to wealth creation. Specifically we had recommended to:

- Develop an index of market participation to highlight connections between broad capital market participation, social cohesion and the institutions of liberal economies;
- Explore how governance codes could also benefit certain unlisted companies, taking into account the need to reduce compliance costs;
- Identify and address barriers to IPOs particularly during the first years of listing, smaller IPOs and other funding sources.
- Support the vital role of equity investment in retirement systems worldwide to meet current and future challenges.
We very much appreciate OECD’s analysis on the geographical shifts in equity markets, in particular towards Asian markets. We strongly support the OECD regional programs, including the regional roundtables, and outreach to major non-member economies.

We also congratulate the OECD on its recent analysis on the ownership of listed companies around the world, which provides unique data about the owners of the largest listed companies, a global overview of ownership of different categories of investors and cross-border ownership as well as the degree of ownership concentration at the company level. Such information and analysis is extremely helpful. Investors in particular need reliable information about the ultimate owners of listed companies, which is also important to support confidence in capital markets more broadly.

As recognized in the background paper, a dynamic business sector alone may not be sufficient to address wider societal objectives, which are coming increasingly to the forefront in public discussions. We therefore see strong connections between corporate governance, setting the right tone from the top and promoting responsible business conduct more broadly.

We have also called upon the Corporate Governance Committee to have a focused discussion on sustainability and corporate governance, the evolution of corporate governance codes and practices concerning sustainable value creation and ESG factors, recognizing that many corporate governance codes are increasingly challenging for boards of directors of listed companies to consider and develop ESG factors within their strategic plans.

2. Standard setting, monitoring of implementation and reform assistance

The G20/OECD Corporate Governance Principles are the international benchmark for policy makers, investors, corporations and stakeholders. The implementation of the Principles should therefore remain a top priority, including both country reviews and thematic peer reviews. We welcome the fact that the program of work clearly calls for assisting the reform processes in individual member countries. At the same time, cooperation in the context of the OECD accession discussions and the Organization’s constructive cooperation with key non-member economies represents an important opportunity for further implementation of the Principles.

We also underline the importance of close cooperation with other parts of the OECD and underline the link between effective implementation of the Principles and addressing corruption, fostering integrity and trust, and increasing efficiency and productivity more broadly.

The OECD thematic peer reviews, such as the recently completed peer review on flexibility and proportionality, have been important outputs of monitoring the implementation of the Principles. We suggest that the following themes could be considered for peer reviews or related OECD analysis:

- Developments in risk governance practices and how individual countries are tackling the need for a better corporate governance culture in companies;
- Interactions between corporate governance regulations, principles, and codes and their implementation;
- Board independence, succession planning and evaluations;
- The role of the board chairman, and the role of board committees;
- The impact of technology, and more specifically digital technology, on corporate governance.

We would also like to express again our appreciation for the OECD’s regional and country specific programs, which can provide practical assistance to reforms on the ground and facilitate regional dialogue. We appreciate the close cooperation of the Corporate Governance Committee with the FSB and the G20 Partner countries in the work related to the OECD/G20 Principles.

We welcome the activities of the OECD Working Party on State Ownership and Privatization Practices and would like to draw the Committee’s attention to our comments which we submitted in October 2019 and which are available on our website. We underline the importance of effective implementation of the OECD Guidelines on Corporate Governance of SOEs and the recently adopted Anti-Corruption and Integrity Guidelines for SOEs (ACI Guidelines). In this context, we welcomed the analysis on corruption risks in the SOE sector and the first ever SOE Anti-Corruption Day to discuss avenues and collect inputs for a practical guide for the implementation of the ACI Guidelines.

3. Analysis and data

Business has consistently underlined the important role of the OECD as a knowledge center, recognizing its strength in compiling fact-based information to provide the basis for policy-based discussions and evaluate progress made in implementing the Corporate Governance Principles. We very much welcome the OECD Corporate Governance Factbook, which is a unique source of information on institutional, legal and regulatory frameworks.

We would be pleased to contribute to discussions on the choice of topics for future reviews. Possible themes to be included or to be given additional emphasis are:

- succession planning,
- additional information on the nature of supervision and enforcement (in addition to the responsible agency),
- accountability mechanisms by which Directors give an account to the shareholders and other stakeholders,
- broader diversity considerations in the composition of the Board, including but not limited to gender.

We also welcome the unique analysis of the OECD in the area of state-owned enterprises, including the size and composition of SOEs and their role as global competitors.

4. Multidisciplinary and horizontal work

We welcome the emphasis on horizontal and multidisciplinary work and the successful contribution of the OECD Corporate Governance Committee to the OECD Economic Outlook as well as the OECD Business and Finance Outlook, most recently on the importance of trust, which is closely linked to good corporate governance.
We are also following with great interest OECD discussions on the link between technology, digitalization and corporate governance, including discussions on challenges and opportunities with regard to the use of blockchain technology. We strongly support an active contribution of the OECD Corporate Governance Committee to the OECD Digital II project, including in the areas of

- digital solutions to facilitate proxy voting, in particular cross border proxy voting,
- digitalization for increasing trust and transparency with regard to beneficial ownership, and
- the role of blockchain technology to increase transparency and accelerate trading and settlement on stock exchanges.

On climate-related financial disclosure, we caution against a multiplicity of approaches and competing standards. We therefore participated with great interest in the roundtable with the FSB on climate related financial disclosure, underlining the importance of accounting for financial implications of climate policies and transparency in pricing risk related to climate change to support future decisions.

Addressing issues such as sustainability and other societal challenges is also a key challenge to boards. It might therefore be necessary to reflect on the overall expertise of the Board as well as outside expertise the Board can call upon to support its decisions.

Finally, we would like to underline the importance of the discussion on audit quality and welcome the fact that the OECD organized a focused roundtable discussion at the October 2019 Corporate Governance Committee meeting. A Business at OECD paper on audit quality will be forthcoming.