G20: OECD Principles of Corporate Governance review

07-09-2015

The OECD Principles were originally developed by the OECD in 1999 and last updated in 2004. The current review has been carried out under the auspices of the OECD Corporate Governance Committee with all G20 countries invited to participate in the review on an equal footing with the OECD Member countries.

The revised Principles maintain many of the recommendations from earlier versions as continuing essential components of an effective corporate governance framework. They also introduce some new issues and bring greater emphasis or additional clarity to others. While some of the Principles may be more appropriate for larger than for smaller companies, it is suggested that policymakers may wish to raise awareness of good corporate governance for all companies, including smaller and unlisted companies.

The G20/OECD Principles of Corporate Governance provide recommendations for national policymakers on shareholder rights, executive remuneration, financial disclosure, the behaviour of institutional investors and how stock markets should function.

The Principles provide guidance through recommendations and annotations across six chapters:

1. Ensuring the basis for an effective corporate governance framework

The chapter emphasizes the role of corporate governance framework in promoting transparent and fair markets, and the efficient allocation of resources. It focuses on the quality and consistency the different elements of regulations that influence corporate governance practices and the division of responsibilities between authorities. In particular, new emphasis is placed on the quality of supervision and enforcement. The chapter also includes a new principle on the role of stock markets in supporting good corporate governance.

2. The rights and equitable treatment of shareholders and key ownership functions

The chapter identifies basic shareholder rights, including the right to information and participation through the shareholder meeting in key company decisions. The chapter also deals with disclosure of control structures, such as different voting rights. New issues in this chapter include the use of information technology at shareholder meetings, the procedures for approval of related party transactions and shareholder participation in decisions on executive remuneration.

3. Institutional investors, stock markets and other intermediaries

This is a new chapter which addresses the need for sound economic incentives throughout the investment chain, with a particular focus on institutional investors acting in a fiduciary capacity. It also highlights the need to disclose and minimize conflicts of interest that may compromise the integrity of proxy advisors, analysts, brokers, rating agencies and others that provide analysis and advice that is relevant to investors. It also contains new principles with respect to cross border listings and the importance of fair and effective price discovery in stock markets.

4. The role of stakeholders in corporate governance

The Principles encourage active co-operation between corporations and stakeholders and underline the importance of recognising the rights of stakeholders established by law or through mutual agreements. The chapter also supports stakeholders' access to information on a timely and regular basis and their rights to obtain redress for violations of their rights.

5. Disclosure and transparency

The chapter identifies key areas of disclosure, such as the financial and operating results, company objectives, major share ownership, remuneration, related party transactions, risk factors, board members, etc. New issues in this chapter include the recognition of recent trends with respect to items of non-financial information that companies on a voluntary basis may include, for example in their management reports.

6. The responsibilities of the board

The chapter provides guidance with respect to key functions of the board of directors, including the review of corporate strategy, selecting and compensating management, overseeing major corporate acquisitions and divestitures, and ensuring the integrity of the corporation's accounting and financial reporting systems. New issues in this chapter include the role of the board of directors in risk management, tax planning and internal audit. There is also a new principle recommending board training and evaluation and a recommendation on considering the establishment of specialized board committees in areas such as remuneration, audit and risk management.

Sound corporate governance is seen as an essential element for promoting capital-market based financing and unlocking investment, which are keys to boosting long-term economic growth.

G20 – OECD Corporate Governance Principles: http://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf

Cristina Ungureanu
Head of Corporate Governance Advisory **Sodali**