



The G20/OECD Principles of Corporate Governance: Key Challenges and Global Developments

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The OECD Corporate Governance Committee

- Oversees the G20/OECD Principles of Corporate Governance and the Guidelines on CG of SOEs.
- Includes 35 OECD Member countries plus participation of G20 Members (including Argentina and Brazil).
- Increasing Latin American flavor: Chile and Mexico members; Colombia and Costa Rica official candidates to join.

Overarching objective of the Corporate Governance Committee:

- To contribute to *economic efficiency, sustainable growth* and *financial stability* by improving corporate governance policies and supporting good corporate practices.

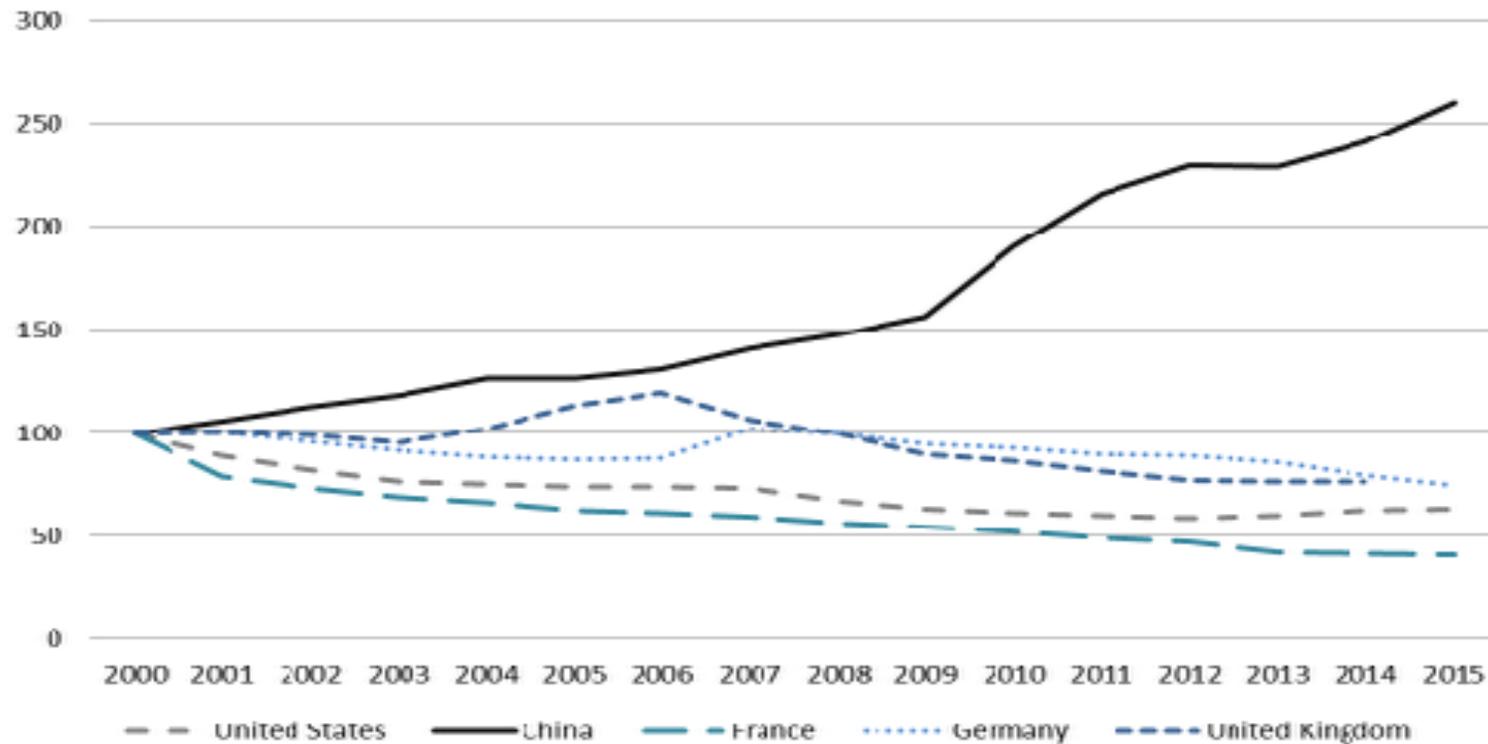


Inputs to revised 2015 CG Principles: OECD thematic peer reviews

- “*The Corporate Governance Lessons from the Financial Crisis*” (OECD, 2010) provided key lessons on remuneration, risk management, board practices and exercise of shareholder rights. This led to thematic peer reviews to assess and promote implementation on key CG priorities:
 1. Board Practices: Incentives and governing risks
 2. The Role of Institutional Investors in Promoting Good Corporate Governance
 3. Related Party Transactions and Minority Shareholder Rights
 4. Board Nomination and Election
 5. Supervision and Enforcement
 6. Risk Management and Corporate Governance



Principles seek to address challenges to existing CG frameworks: Decrease in public listings, going private



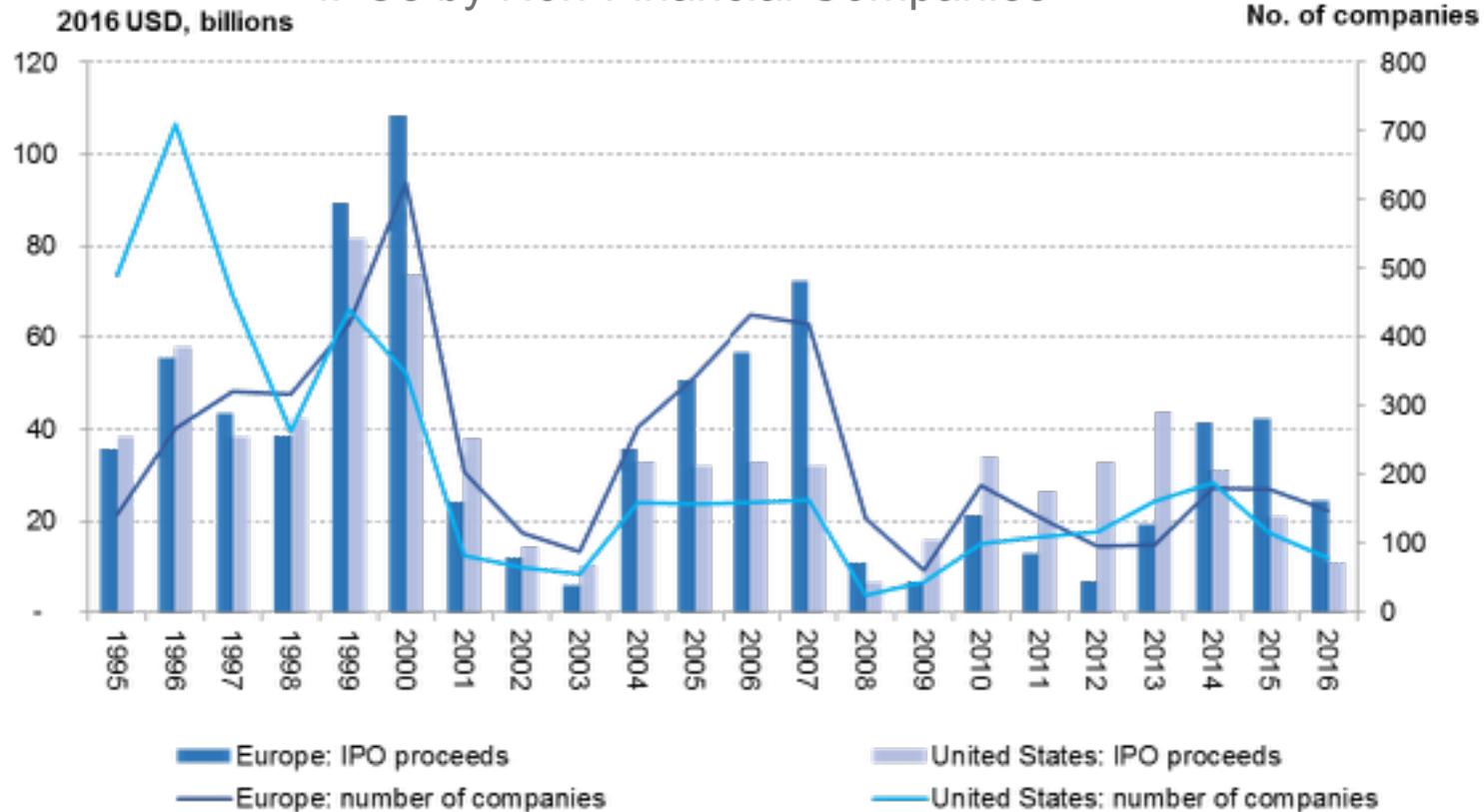
(Year 2000 = 100)
Source: World Bank World Development Indicators

- LT trends in OECD countries: in the last 10 years, some of the largest and most advanced stock markets have lost half of their publicly listed companies. China has doubled.



Challenges to existing CG frameworks: Decrease in public listings, going private

IPOs by Non-Financial Companies



Annual average number in the US:

- 1995-2000: 452
- 2001-2010: 101
- 2010-2016: 129

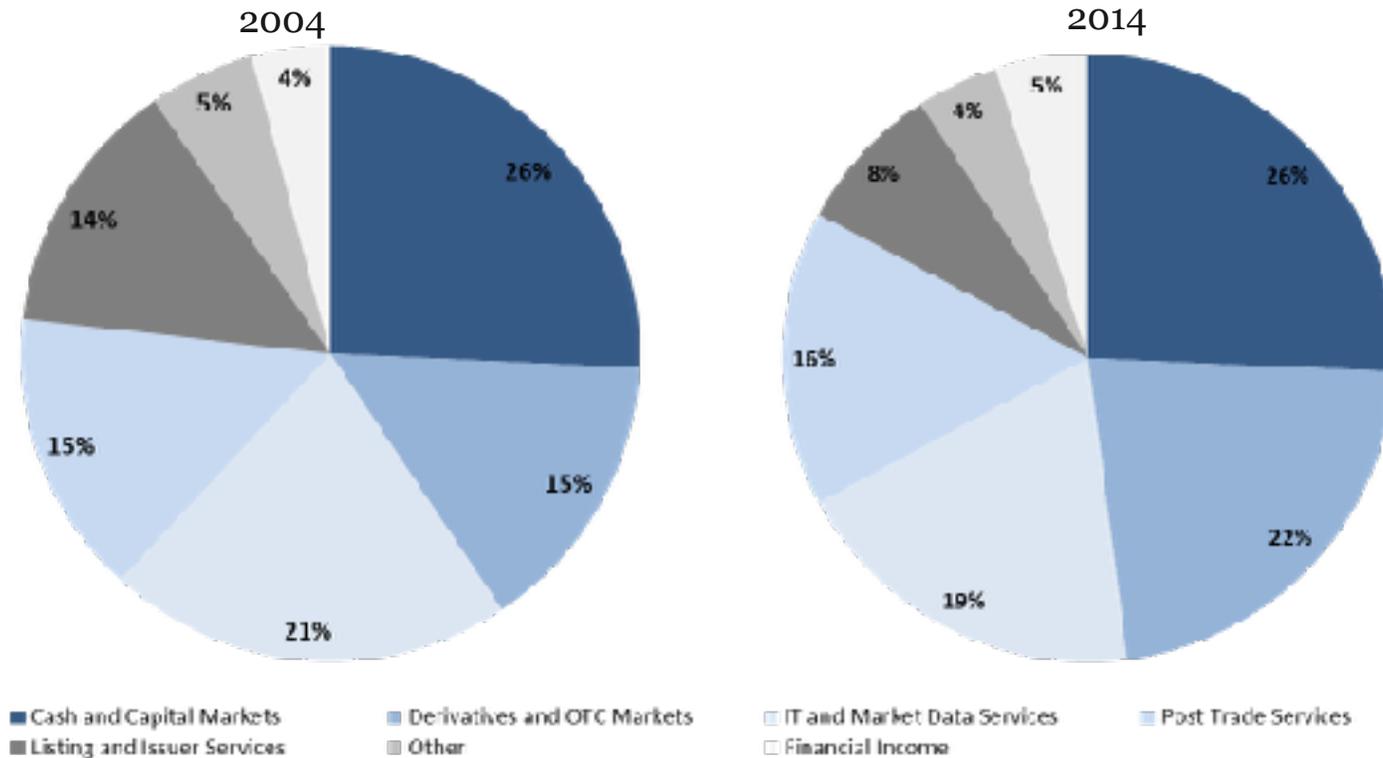
Annual average number in Europe:

- 1995-2000: 349
- 2001-2010: 225
- 2011-2016: 140

Source: Thomson Reuters, OECD calculations



Challenges to existing CG frameworks: Role of stock exchanges



- Profit-maximising
- Reduced focus on attracting IPOs?

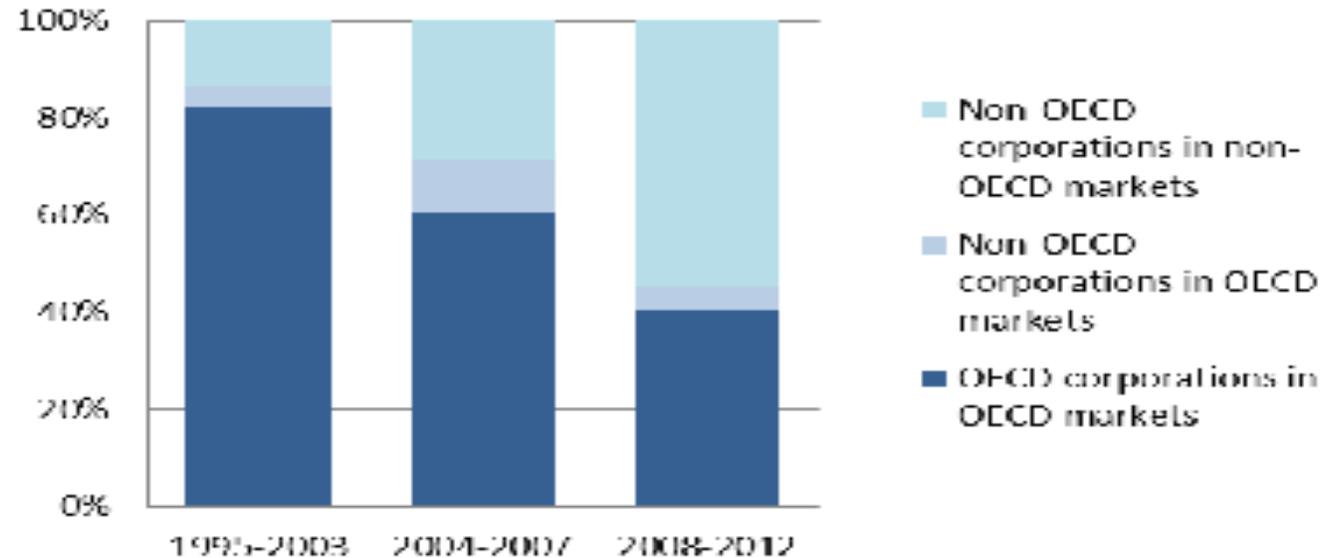
Notes: Revenue data from 20 stock exchanges

Source: Business and Finance Outlook 2016, Chapter 4



Challenges to existing CG frameworks:

Rise of emerging markets, global shift in the IPO market



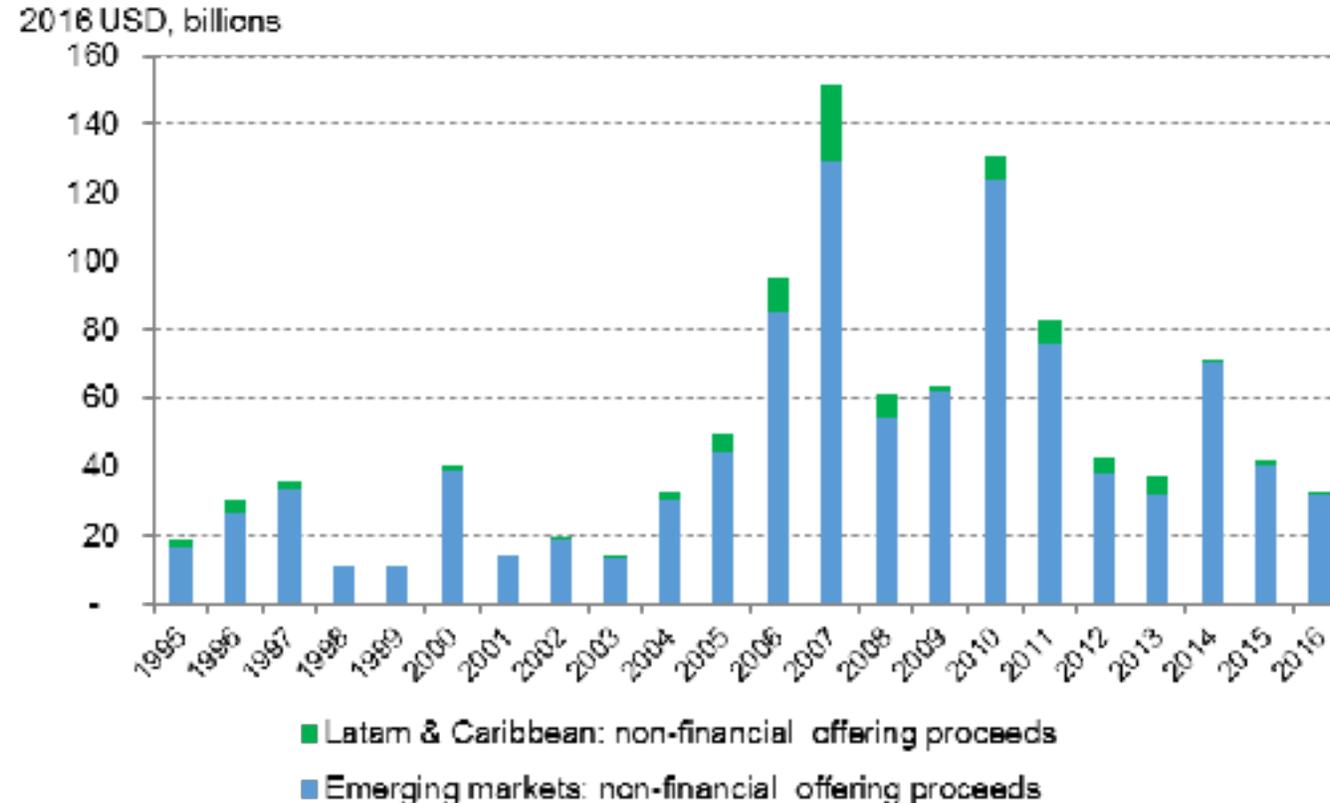
- Non-OECD markets moved from just a 20% of all IPOs to 60%.
- Concentrated or state ownership has become more common.
- Delegation of monitoring to asset managers and proxy advisors.
- Use of indexing, ETFs, high-frequency trading on rise, reducing incentives for monitoring and ownership engagement.
- Emerging markets feature equity gap/dependence on bank finance.

Source: OECD calculations, based on data from Thomson Reuters New Issues Database, Datastream, stock exchanges' and companies' websites.



Latin American markets face even greater challenges for equity market development

Emerging markets non-financial IPOs



- The initial public offering activity in emerging markets are driven mostly by Asian economies and not by Latam & Caribbean emerging markets.



Implementing the G20/OECD Principles can help to address challenges

- I. Ensuring the basis of an effective corporate governance framework
- II. The rights and equitable treatment of shareholders and key ownership functions
- III. Institutional investors, stock markets, and other intermediaries
- IV. The role of stakeholders in corporate governance
- V. Disclosure and transparency
- VI. The responsibilities of the board



Revisions to the Principles of CG

- I. Ensuring the basis of an effective corporate governance framework
 - Increased emphasis on supervision & enforcement (public & private)
 - Governance of regulators
 - Changing role of stock markets
 - International cooperation/MoUs



Revisions to the Principles of CG

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

- Combines old chapters II and III
- Update of various provisions to better reflect increased shareholder rights since 2004, such as:
 - Say-on-pay
 - Electronic voting
 - Related-party transactions



Revisions to the Principles of CG

III. Institutional investors, stock markets, and other intermediaries

- New chapter: role of incentives in the investment chain for corporate governance
- Disclosure of fee structures, conflicts of interest
- Multiple stock market listings
- Proxy advisors



Revisions to the Principles of CG

IV. The role of stakeholders in corporate governance

- Reference to international conventions and norms recognising the rights of employees to information, consultation and negotiation
- Extension of whistleblowing provisions to the competent public authorities and reference to National Contact Points



Revisions to the Principles of CG

V. Disclosure and transparency

- Internationally recognised accounting standards
- Non-financial reporting
- Related-party transactions
- CEO/Chair responsibilities
- Independent audit regulators



Revisions to the Principles of CG

VI. The responsibilities of the board

- Tax planning strategies
- Risk management system
- References to Say-on-pay, malus and claw-back
- Audit and other board committees
- Internal audit function
- Direct board reporting on risk
- Board evaluation & training, diversity
- Board employee representation (where applicable)



How relevant are the Principles for Latin American countries?

- Concerns about reduced use of equity finance, lack of IPOs, is part of global trend.
- Good corporate governance can help but is not only answer. Tax incentives, other government policies influencing capital markets and bank finance also matter.
- For markets to be effective, institutional investors must play active role and must also adopt good governance practices.
- Corporate governance of SOEs is also important for reputation of capital markets.



How OECD monitors and supports progress in implementing good CG

- Thematic CG Committee peer reviews (currently focusing on proportional application of regulation).
- Regular updating of OECD Corporate Governance Factbook covering 47 jurisdictions.
- Latin American Corporate Governance Roundtable, new Task Force on Latin American Equity Market Development, and L.A. Network on CG of SOEs.



References

- **G20/OECD Principles of Corporate Governance**
<http://www.oecd.org/corporate/principles-corporate-governance.htm>
- **OECD Corporate Governance Factbook**
<http://www.oecd.org/daf/ca/corporate-governance-factbook.htm>
- **Corporate Governance in Latin America:**
www.oecd.org/daf/ca/latinamericanroundtableoncorporategovernance.htm
www.oecd.org/daf/ca/latinamericannetworkoncorporategovernanceofstate-ownedenterprises.htm

Thank you!