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Directorate for Financial and Enterprise Affairs

OECD

Paris, France

Subject: Public Consultation on the Review of the G20/OECD Principles of Corporate Governance

CFA Institute welcomes the opportunity to comment on the OECD Public Consultation on Draft Revisions to the G20/OECD Principles of Corporate Governance.

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organisation is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow. There are more than 190,000 CFA® Charterholders worldwide in 160 markets. CFA Institute has nine offices world-wide and 160 local member societies.

The promotion of good standards and practices of corporate governance is a key priority for our organisation. In 2018, CFA Institute published the third [edition](#) of its corporate governance manual for investors, which highlights the main governance issues and risks negatively impacting companies and investors, and provides a series of factors that investors should take into consideration before investing in a listed company. Our organisation also released a [paper](#) on the increasing issuance of dual class shares in companies located in the Asia Pacific region, and two reports focusing on European corporate governance practices, and the adoption (and implementation) of the Shareholder Rights Directive II in the EU¹.

¹ Please read the report "Corporate Governance Policy in the European Union (2016)": <https://www.cfainstitute.org/-/media/documents/article/position-paper/corp-gov-policy-in-european-union-through-investor-lens.pdf> and the report "Corporate Governance and ESG disclosure in the EU": https://www.cfainstitute.org/-/media/documents/article/position-paper/CFA-CG_ESG_EU_WEB.pdf

CFA Institute agrees with the inclusion of a specific paragraph in the Principles of Corporate Governance, concerning the recognition of equal access of information and participation for all shareholders in general shareholder meetings held in a virtual or a hybrid format. The organisation of hybrid shareholder meetings provides more flexibility for shareholders to participate and vote on resolutions. Company shareholders can decide to take part and engage virtually in these meetings. However, we found that many minority shareholders experienced several issues that negatively impacted on their active participation and engagement with the companies in which they have invested. For example, shareholders have been able to submit questions before virtually participating in hybrid AGMs. However, since they are not aware of the details that will be discussed during general meetings, they cannot ask detailed questions beforehand. In addition, many shareholders have not been able to ask follow-up questions if they were not satisfied of the board's or auditors' response to a previously submitted question. Moreover, company directors may decide to discard questions related to topics that they are not comfortable to discuss during AGMs. It is important that shareholders can effectively exercise their rights, such as voting resolutions or asking questions to company management, irrespective of whether they join general shareholder meetings virtually or in person.

The consultation report focuses on the way related party transactions should be addressed. We believe that it is essential that companies disclose any material related-party transactions or commercial relationships with existing board members or board nominees, and have a policy on the approval of such operations. A further way to reduce the likelihood of related-party transactions, which could cause conflicts of interests, is for organisations to put in place some limitations. Examples could be for the company to include, in its code of ethics or the boards' policies and procedure, restrictions for insiders to accept remuneration or in-kind benefits from the company for consulting or other services outside the scope of their positions as board members.

CFA Institute appreciates the OECD mention on the need for the corporate governance framework to facilitate and support engagement by institutional investors. We believe that investors should periodically review their own internal governance standards with the aim to fine-tune the commitment from top management, and have clear and rational expectations concerning the stewardship responsibilities. This revision exercise should include an assessment of the investor's commitment to stewardship and an analysis on how such a commitment is connected with the business models and resources needed to develop a successful fiduciary stewardship in terms of monitoring, voting, and engagement.

Organisations should improve the way they engage with shareholders and stakeholders, and reach them out to manage their expectations. In the CFA Institute report "[Investment Firm of the Future](#)", we suggest that investors and the investment industry follow a portfolio approach,

which focuses on taking thinking and acting out of separate silos and creating a unified and integrated portfolio process that considers both industry realities and unique client needs. The industry favours this approach using mandates overseen by Chief Investment Officers (CIOs) and Outsourced Chief Investment Officers (OCIOs) that take overall responsibility for investment outcomes. This is an outcome-driven model that would be comprehensively aligned to end-investor needs and goals.

CFA Institute also supports the inclusion of the new chapter on Sustainability and Resilience in the Principles as corporate governance systems should encourage companies and investors to make investment decisions that also contribute to the sustainability and resilience of the organisation. Sustainability disclosure is crucial to provide greater transparency on the sustainable impact of companies' decisions. We advocate for a forward-looking business model, which clear disclosure rules facilitating an evaluation of the viability of the business model, the sustainability of finance, and the consideration of other ESG factors. Such information would provide investors with robust data on the management's vision and the manner in which the company could react in the event of emerging risks with its strategy. However, we highlight that the concept of material information also should be reinforced to include the definition of double materiality. This is necessary to make sure that organisations appropriately and consistently report on the impact of corporate decisions on people and the environment (impact materiality).

Finally, we would like to stress that improved corporate governance practices cannot be achieved by regulation alone. All interested parties, such as investors and companies, need to contribute by fully understand their role, rights and responsibilities, and better engage in the implementation of good corporate governance.

Should you have any question on our comments or have a further discussion to talk about our views in more detail, please do not hesitate to contact Josina Kamerling at Josina.Kamerling@cfainstitute.org.

Sincerely,

Josina Kamerling

A handwritten signature in blue ink that reads "Josina Kamerling". The signature is written in a cursive style and is positioned above a horizontal line.

Head, Regulatory Outreach, EMEA

CFA Institute