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Submitted online
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Subject: Accountancy Europe comments on the OECD Public Consultation on the Review of the *G20/OECD Principles of Corporate Governance*

Dear Mr Celik,

Accountancy Europe congratulates OECD for embarking on the Review of the G20/OECD Principles of Corporate Governance (G20/OECD Principles). Good corporate governance is instrumental to secure financial stability, capital market resilience, investor confidence, efficient capital allocation, promoting social responsibility and sustainable economies.

Policymakers and regulators need to deliver a strong policy response to ensure effective transition to a sustainable and resilient economy. We encourage OECD and G20 to adopt a high level of ambition in strengthening their corporate governance principles. The G20/OECD Principles need to keep pace with the climate emergency, changing stakeholder expectations as well as international regulatory and policy developments. The review will need to ensure the principles are relevant, fit for purpose and futureproof.

Over decades, Accountancy Europe has contributed its thought-leadership and expertise to promoting sound corporate governance, robust corporate reporting/disclosures and transparency and transition to a sustainable economy. We appreciate the opportunity to contribute to this important OECD consultation.

Accountancy Europe welcomes the proposed revisions and especially the inclusion of a new chapter on *Sustainability and resilience*. Robust internal controls and risk management systems are crucial elements of good corporate governance – both for sustainability and financial aspects; the G20/OECD will need to ensure these are thoroughly reflected in the principles. We appreciate that the G20/OECD Principles incorporate:

- sustainability considerations in shaping good governance practices, decision-making, strategy and risk management policies
- sustainability disclosure and sustainability assurance by an independent, competent and qualified assurance service provider
- stakeholder engagement and consideration of their rights, roles and interests

Overall, we see OECD has made positive progress in modernising the corporate governance principles and we commend it for being on the right track. We propose below several matters to take into account in the review to ensure the principles are truly fit to support the transition to a sustainable economy.

Our comments focus on the three last chapters looking into disclosure and transparency, the board's responsibilities and sustainability and resilience. As a general observation, we recommend OECD makes a clearer distinction between the principles and guidance, which tends to go into a higher level of detail.

SYSTEMIC RISKS NEED A SYSTEMIC SOLUTION

Disruptions stemming from the climate crisis, global supply chains and financial markets represent major systemic risks for financial stability. Addressing systemic risks requires a systemic approach. This means collaboration among jurisdictions, policymakers, companies, regulators, NGOs, supervisory authorities as well as across sectors and market players. G20/OECD have a crucial role to play in facilitating stakeholder cooperation and dialogue.

RECOGNISE THE BROAD SCOPE OF SUSTAINABILITY CHALLENGES

We noted the draft principles refer to the climate crisis and use 'addressing climate change' as an example when referring to sustainability risks and opportunities. The urgency and importance of climate change is undoubtedly valid. However, the G20/OECD Principles should be explicit that sustainability refers to all aspects including other environmental issues such as biodiversity loss, natural resources depletion as well as the social, governance and other issues. We recommend OECD uses a diverse range of examples when referring to sustainability e.g. making reference to the 17 UN SDGs.

PROMOTE CORPORATE GOVERNANCE AS A CATALYST FOR BUSINESS MODEL TRANSFORMATION

Businesses need to transform their current linear economic models to contribute to the achievement of sustainability goals and to maintain their 'license to operate'. Corporate governance is instrumental to change how businesses are run and can be a catalyst for such transformation.

We support that the revisions to the G20/OECD Principles recognise the fundamental role of good corporate governance for companies' and broader economy's sustainability and resilience. The G20/OECD Principles need to set an effective framework for companies to address their ESG risks and impacts, which need to be properly measured, factored in and accounted for by business.

SET SUSTAINABILITY AS A KEY STRATEGIC GOVERNANCE MATTER

We welcome the G20/OECD Principles spell out that the board should consider material sustainability matters as part of their oversight responsibility for company's risk management and internal controls. The G20/OECD Principles should empower boards, board committees and management to set sustainability as a key strategic governance matter. This means fully integrating sustainability risks, impacts and opportunities within the business strategy and operations, supply chains and enterprise risk management.

ENSURE BOARD AND COMMITTEE COMPOSITION ARE FIT FOR SUSTAINABILITY CHALLENGES

Addressing ESG risks, impacts and opportunities will require building capabilities within the corporate governance structures. Boards' and board committees' composition, diversity, skills and competency profiles need to be up to date to respond to changing business realities and demands. This may entail reviewing their expertise, experience, skillsets and mindset.

The G20/OECD Principles should reflect how board's and board committees' terms of reference, competencies, expertise and work plans must evolve to make sustainability part of a broad strategy and board duties.

We would also like to share a specific point for OECD consideration on the use of terminology in section V.E.4. p. 43 looking into boards' background, competencies and diversity. We propose OECD considers using a term 'under-represented groups' rather than 'female'. This will help underline that equality is the ambition.

LINK DIRECTORS' VARIABLE REMUNERATION TO COMPANY'S SUSTAINABILITY PERFORMANCE

Currently the sustainability aspect is not reflected in many executive directors' variable remuneration schemes, and where it is, it is not on the same level as the achievement of financial performance targets. Executive directors' as well as senior management members' remuneration should be contingent on sustainability performance and in line with the board's decisions. Clear and consistent benchmarks based on science-based targets should underpin the sustainability performance targets used for establishing variable pay.

Therefore, we welcome that the G20/OECD Principles promote the use of sustainability indicators in executive remuneration. We agree that disclosing this information will allow investors to assess whether indicators are linked to material sustainability risks and incentivise sustainable value creation for the company.

RECOGNISE AUDIT COMMITTEES' CRUCIAL ROLE IN ESG GOVERNANCE

We welcome the G20/OECD Principles allow companies for flexibility and discretion to form committees based on their individual circumstances. For example, under the EU *Corporate Sustainability Reporting* Directive audit committee's mandate and responsibilities are expanded to sustainability reporting and assurance.

We recommend the G20/OECD Principles explicitly recognise audit committees' crucial role in helping the boards to steer companies' sustainability transformation. They are well placed to support boards with sustainability reporting and assurance, thanks to their oversight of business risks, risk management systems, internal controls, corporate reporting and audits.

Accountancy Europe examined audit committees' enhanced responsibilities in the area of ESG stemming from the European Commission *Corporate Sustainability Reporting* Directive in its recent paper (April 2022) *ESG Governance: Recommendations for Audit Committees*. We also put forward recommendations to help audit committees carry out this function.

The important role of risk, nominations and remunerations committees in helping boards to embed and address sustainability should also not be understated.

PROMOTE ROBUST SUSTAINABILITY REPORTING AND DISCLOSURES

Sound governance mechanisms, such as adequate policies and procedures and robust internal controls, form the backbone of sustainability reporting and ensuring consistent and reliable disclosures. We support the G20/OECD Principles recognise the key role of effective governance and internal controls to improve the credibility and reliability of sustainability information.

Accountancy Europe welcomes the OECD's revisions on disclosure and transparency, and the inclusion of a new chapter on *Sustainability and resilience* looking more specifically into sustainability disclosures. Broadening corporate governance's role to address sustainability reporting and assurance will improve transparency, inform efficient capital allocation and improve market confidence and public scrutiny. Transparency and quality of information will allow market participants and other relevant stakeholders to better understand how organisations are addressing sustainability risks.

The elements on qualitative characteristic of information, connectivity between sustainability and financial information, assurability and materiality considerations are also informing the development of sustainability reporting standards by the International Sustainability Standards Board (ISSB) and the European Financial Reporting Advisory Group (EFRAG).

Accountancy Europe supports the work of both these organisations in view of achieving high-quality, global sustainability standards that serve the information needs of market participants and broader stakeholders. The development of these standards, combined with sound, generally accepted corporate governance principles, will provide a more level playing field that will promote trust and confidence amongst market participants and broader stakeholders.

SUSTAINABILITY DISCLOSURES SHOULD REFLECT COMPANY'S IMPACTS ON PEOPLE AND ENVIRONMENT

We appreciate the OECD's considerations on materiality and recognise the similarities with the growing consensus on enterprise value considerations that support value creation in the short-, medium- and long-term. However, we point out that investors are increasingly asking for wider impacts disclosures as well, which also need to be supported by robust governance processes.

Therefore, we recommend the G20/OECD Principles' review also reflects that company's own impacts on people, society, the environment and the economy are equally important. Company's external impacts can affect its own ability to create value. We suggest OECD closely monitors international developments and progress in relation to 'double materiality' approach and, to achieve harmonisation between principles and standards, avoid divergence from an established generally accepted approach.

MAINTAIN DISCLOSURE ON 'ISSUES REGARDING EMPLOYEES AND OTHER STAKEHOLDERS'

We regret the deletion of the section 'Issues regarding employees and other stakeholders' under *Disclosure and transparency* chapter. Transparency about these key material matters is fundamental to good corporate governance. We recommend OECD not only maintains this section but also strengthens it to keep pace with the latest developments in sustainability reporting.

ENCOURAGE ASSURANCE ON SUSTAINABILITY DISCLOSURES

Accountancy Europe welcomes that the G20/OECD Principles highlight the need for company's sustainability disclosures to be reviewed by an independent, competent and qualified assurance service provider in accordance with high quality international assurance standards.

Independent external assurance on sustainability reporting is important in driving investors towards sustainable projects and providing confidence to other market participants and regulators. It enhances the sustainability disclosures' reliability and strengthens confidence in markets. We also welcome that the G20/OECD Principles highlight the need for greater convergence of the level of assurance between financial statements and sustainability reports.

Professional accountants have been providing assurance services on sustainability information in Europe for over two decades. They have built up expertise in this area based on their financial audit experience, combined with acquired knowledge regarding sustainability matters and supported by the professional framework and standards they follow, including on ethics and quality management.

KEEP PACE WITH SUSTAINABILITY ASSURANCE RELATED INTERNATIONAL DEVELOPMENTS

The G20/OECD Principles suggest considering phasing in of requirements for sustainability disclosures assurance. We encourage the OECD review recognises that assurance on sustainability disclosures is now a mandatory requirement in the European Union according to the European Commission's *Corporate Sustainability Reporting* Directive. In the US, the Securities and Exchange Commission (SEC) proposed a Climate Disclosure Rule, which also envisaged assurance on GHG Scope 1 and Scope 2 disclosures.

We therefore urge the G20/OECD Principles review keeps better pace with the international developments on this matter. Promoting high level of ambition on sustainability assurance is especially pertinent given its role in enhancing investors' confidence in the information disclosed and comparability of companies' sustainability reports. This is key to sustainable finance allocation decisions and facilitating regulatory and public scrutiny.

CONSIDER COMPANY'S SUSTAINABILITY RISK PROFILE

Corporate governance should not be only an issue only for larger corporations. Ultimately, it is not about the size of a business, but about its risks and impacts. It will be important to ensure that national regulatory measures are proportionate to the companies' size but also to their impacts and risks.

Accountancy Europe paper (March 2020) *From risks to regulation: rethinking company categorisation* proposes a risk-based approach to categorise companies which better reflects their impacts on the economy, environment and society. A holistic take on companies' risks and impacts would enable policymakers to draft policies better suited for our increasingly complex world.

PUBLIC CONSULTATION - PROCEDURAL CONSIDERATIONS

We would like also to share a few constructive points from the procedural perspective to facilitate stakeholder feedback:

- Extend commenting deadline: we encourage OECD to allow a longer period for consultation with stakeholders. This will allow sufficient time for internal coordination and discussion especially for organisations that also have internal due processes in place.

- Include questions to stakeholders: we encourage OECD to include specific consultation questions to ensure more targeted and useful feedback.

- Number the paragraphs: we encourage including paragraph numbers. This would facilitate cross-refencing when providing feedback on specific revisions.

Sincerely,

Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 50 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).