



**ICGN**

International Corporate Governance Network  
*Inspiring good governance & stewardship*

OECD Corporate Governance Committee  
[CorporateGovernance&CorporateFinance@oecd.org](mailto:CorporateGovernance&CorporateFinance@oecd.org)

21<sup>st</sup> October 2022

Dear Committee Members,

**Re: Draft Revisions to the G20/OECD Principles of Corporate Governance**

The International Corporate Governance Network (ICGN) welcomes the opportunity to respond to the public consultation on Draft Revisions to the G20/OECD Principles of Corporate Governance (“G20/OECD Principles”).

Established in 1995, ICGN’s purpose is to convene capital market participants to develop, promote and embed high standards of corporate governance and investor stewardship worldwide to preserve and enhance long-term value, contributing to sustainable economies, societies, and the environment. ICGN Members, many of whom are investors responsible for assets of around \$70 trillion, are based in over 40 countries - largely in Europe and North America, with growing representation in Asia. For more information visit [www.icgn.org](http://www.icgn.org).

Our work programme is guided by the ICGN Global Governance Principles<sup>1</sup> (“ICGN Principles”) first introduced in 2001 and most recently updated in 2021. The ICGN Principles are developed largely from an institutional investor perspective and are intended for application by companies of all types. The ICGN Principles are used by many ICGN Members in their voting policies, company engagements and investments; and are often referred to by Governments in the development of national codes and guidelines. The ICGN Principles are complemented by the ICGN Global Stewardship Principles<sup>2</sup> which serve as ICGN’s core framework for guidance around responsible investment policies and practices.

ICGN promotes the G20/OECD Principles alongside the ICGN Principles as a global framework of relevance for capital markets and which serve as a basis for Governments to consider when introducing or developing national codes.

Both the ICGN Principles and G20/OECD Principles stand as the two most prominent global standards for corporate governance as acknowledged in Recital 44 of the proposed European Corporate Sustainability Reporting Directive (CSRD) where ICGN Principles and G20/OECD Principles are both recognised as ‘*an authoritative global framework of governance information of most relevance to users.*’ Once approved by the European Parliament and Council, the Directive will influence the drafting of corporate sustainability reporting standards developed by the European Financial Reporting Advisory Group which will be mandatory for over 50,000 of the largest EU companies and effective from January 2024.

It is within this context that the ICGN is pleased to provide general observations structured in accordance with the following chapters of the G20/OECD Principles:

---

<sup>1</sup> [ICGN Global Governance Principles, September 2021](#)

<sup>2</sup> [ICGN Global Stewardship Principles, June 2020](#)

1. Ensuring the basis for an effective corporate governance framework
2. The rights and equitable treatment of shareholders and key ownership functions
3. Institutional investors, stock markets, and other intermediaries
4. Disclosure and transparency
5. The responsibilities of the board
6. Sustainability and resilience

As an overarching comment, ICGN congratulates the OECD on this latest draft, and we observe both small technical improvements as well as important new areas of emphasis, particularly with regard to the OECD's new section on sustainability and resilience. You will see in our comments that we are largely supportive of the revised OECD/G20 Principles, many of which complement ICGN's own Global Governance Principles. We also are favourably inclined to the importance that OECD has placed on regulatory independence and the support for the importance of other forms of diversity, in addition to gender diversity. At the same time we also highlight different perspectives on several points, often linked to the consideration of minority shareholder rights and protections.

## **1. Ensuring the basis for an effective corporate governance framework**

**1.1.Shareholder accountability:** Page 6: Paragraph 5: While included in the 'About the Principles' section, we welcome new drafting recognising the importance of *'well designed corporate governance policies to provide a framework to protect investors, which include households with invested savings.'* It may be appropriate to also acknowledge the important role that investors play in upholding high standards of corporate governance through the exercise of shareholder rights and in undertaking effective stewardship responsibilities. This is consistent with global recognition that investors should hold companies to account on behalf of beneficiaries or clients through investee company monitoring, voting and engagement as recommended in stewardship codes around the world. In this regard, we agree with the wording in the previous G20/OECD Principles which stated that *"the effectiveness and credibility of corporate governance frameworks - and therefore the oversight of companies - depend to a large extent on investors that can make informed use of their shareholder rights and effectively exercise their ownership functions.'*

**1.2.Comply or explain:** Page 11: I.B: We note reference to the implementation of corporate governance codes *'usually encouraged through a "comply or explain" disclosure mechanism'*. This is also referred to on Page 32: IV. A. 9 with regards to the *'extent of compliance with national corporate governance codes'* under a 'comply or explain' system. We recommend that the meaning of 'explain' be clarified, 'i.e., if a company wishes to deviate from a Code Principle, a rationale should be provided to shareholders, who, in turn, should carefully consider and assess the quality of corporate governance code disclosures, including any deviations, and engage constructively with companies to preserve and enhance long-term corporate value. This relies upon meaningful corporate governance disclosures and the use of judgement by investors in assessing such disclosures.'" We also observe that in some jurisdictions a stronger 'apply and explain' regime exists to ensure full application of a Code's principles.

**1.3.Stock market regulation:** Page 11: I.D: We advise that consideration be given to referencing the importance of stock market regulation as consistent with upholding shareholder rights, thereby facilitating effective investor stewardship practices. We note the significant decline in listed companies over the last two decades and the resultant

desire for stock exchanges to increasingly compete for high value initial public offerings. This has triggered a wave of Listing Rule changes allowing multi-class share structures with voting rights disproportionate to underlying economic interests and investment risk. We view this development as a regulatory ‘race to the bottom’, which compromises shareholder rights to attract new listings. By watering down the shareholder voice in voting at AGMs, this also damages the prospects for effective investor stewardship. ICGN has surveyed its Members on this point and there is a strong conviction across the majority of institutional investors that the optimal share structure for companies wishing to benefit from access to public capital should be one vote for each share within the same class. This helps to ensure the equitable treatment of all shareholders, protecting against managerial entrenchment and an erosion of accountability. ICGN has advocated for sunset provisions to be embedded into the listing requirements for IPOs coming to the market with multi- or dual class share structures.

**1.4. Cross-border co-operation:** Page 13: I.G: We support the enhancement of cross-border co-operation. In this regard we refer you to two important global networks established and convened by the ICGN: the Global Stewardship Codes Network (GSCN), a forum for organisations responsible for developing and implementing stewardship codes to exchange information and ideas; and the Global Network of Investor Associations (GNIA), an international collaboration of organisations with a common interest in promoting shareholder rights and responsibilities and effective standards of corporate governance.

**1.5. Clear regulatory frameworks should ensure the effective oversight of listed companies within company groups.** ICGN is mindful of the potential for conflicts of interests across the membership of listed companies within company groups. This should be avoided.

**1.6. Company groups:** We welcome new reference to the oversight of listed companies within company groups. In particular, we agree with new drafting on Page 21: II. G regarding directors serving on a board of a company within a group whereby their fiduciary duty is owed to the company board on which he/she serves as a separate legal entity from the parent company.

**1.7. Terminology:** A general point to note is that throughout the G20/OECD Principles there is an interchangeable reference to environmental, social and governance (ESG) factors, sustainability factors and non-financial information. While the meaning of each of these terms is generally understood by professional readers, it would be helpful for the OECD to maintain consistent reference to a single, rather than multiple, set of terms to avoid any unintended confusion. ICGN is also striving to streamline its use of terminology to align with greater reference to ‘sustainability’ which refers broadly to assets and liabilities associated with a company’s financial capital, human capital, and natural capital.

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

**2.1. Board slates:** Page 15: paragraph 5: The new reference to ‘or board member slates’ should be removed. We appreciate that the drafting concerns investor rights to appoint such slates, but we believe that reference to individual director appointments is sufficient. It is commonly accepted that nomination and appointment of board slates is not conducive to director accountability to shareholders for his or her performance on the board. However, we do believe a slate system to ensure the ability of minority shareholders to nominate and elect independent directors (as in the case of Italy, for

example) may serve as a useful structure in companies with controlling ownership— as long as the directors are voted upon individually and not as a group.

**2.2.Auditor accountability:** Page 15: paragraph 5: We suggest deleting ‘the approval or election of auditors.’ We believe this drafting should remain as it reflects common shareholder rights in many markets in relation to auditor accountability to shareholders. This should be included as point 6 under section II.A.

**2.3.Basic shareholder rights:** Page 16: II. A: In addition to referencing the right to approve or elect the external auditor, additional basic shareholder rights should include the right to ask questions of management and the supervisory body, to call shareholder meetings, and clarification of the right to file a resolution or to make shareholder proposals. ICGN would consider a basic shareholder right is one in which the right to nominate a director is included.

**2.4.AM format:** Page 16: II. C. 1: We suggest adding ‘format’ to the information provision given that AGM’s may be held physically or by virtual means. We note that access to timely information on matters to be voted upon at the AGM is challenging in many markets and recommend that information is released at least one month ahead of the AGM.

**2.5.Virtual/hybrid AGMs:** Page 17: II. C. 3: We welcome the introduction of new reference to virtual or hybrid shareholder meetings. The AGM should be managed to allow for secure, efficient, and democratic access for all participants to facilitate open dialogue with the company board and management and allow shareholder to make remarks without undue censorship. While ICGN prefers and encourages the use of hybrid shareholder meetings which may lead to more active participation, there are times when companies may need to hold virtual meetings. These should not be seen as interchangeable terms. The use of hybrid AGMs may provide investors’ (particularly institutional investors) greater participation, particularly if shareholder proposals will be offered or there are contested items on the ballot. If a company must host a virtual-only meeting, under extraordinary circumstances, it is important that the company ensure that shareholders’ rights are not affected, including the opportunity to ask questions and receive responses, to retain the necessary investor/board dialogue, and to communicate with other shareholders.

**2.6.II.C.5. Effective shareholder participation in key corporate governance decisions, such as the nomination and election of board members, should be facilitated. Shareholders should be able to make their views known, including through votes at shareholder meetings, on the remuneration of board members and/or key executives, as applicable. The equity component of compensation schemes for board members and employees should be subject to shareholder approval.**

ICGN would also encourage disclosure of performance metrics, weights and targets so investors can evaluate strategic alignment with investor goals. ICGN recognizes that there should be *regular* votes on equity plans – the way it is currently worded could potentially provide for a one-time approval which can be problematic if the plan has an evergreen provision. Shareholders generally prefer metrics, KPIs and targets to ensure that executive pay is tied to long-term performance.

**2.7. Shareholder collaboration:** Page 19: II. D: We agree that regulators should provide clarity to shareholders around their ability to act collaboratively with other investors without being considered a concert party. Many countries lack clear direction for defining acceptable engagement subjects to ensure investors do not breach rules regarding collective holding thresholds above which would trigger onerous reporting requirements. An example of helpful guidance in this regard is the public statement issued by the European Securities and Markets Authority which clarifies information on shareholder co-operation under the Takeover Bids Directive. (This recommendation may be more appropriately positioned under Section 3 of the Principles concerning institutional investors). It should also be clarified that sustainability-related engagement initiatives would not be considered as a breach of anti-competition law or as a form of acting in concert.

**2.8. Equal shareholder treatment:** Page 19: II. E: Minority shareholders should have the right to approve proposals to change the voting rights of different series and classes of shares. In addition, as ICGN has already stated, there should be an emphasis on the use of a sunset provision as a safeguard in cases where dual class structures exist. But ICGN opposes differential voting structures generally and advocates one share/one vote as the structure most suitable to good governance over the long term.

**2.9. Abusive actions:** Page 21: II. G: To mitigate minority shareholder abuse by controlling shareholders, boards should disclose the policies and processes for decision-making regarding extraordinary transactions. This includes establishing a committee of independent directors to review such transactions and determine whether it is in the best interests of the company and fair and reasonable in respect to minority shareholders. The transaction should be disclosed, both before concluding the transaction and in the company's Annual Report. It should also be submitted for approval in the Notice of the AGM for approval by a majority of disinterested shareholders. Details of transactions should include, among other things:

- the identity of the ultimate beneficiaries including any controlling owner or business group and any party affiliated with the controlling owner with any direct/indirect ownership interest in the company;
- other businesses in which the controlling shareholder has a significant interest;
- shareholder agreements (e.g., commitments to related party payments such as license fees, service agreements and loans); and
- The use of anti-takeover devices to thwart shareholder action.

**2.10. Anti-takeover devices:** Page 22: II. H. 2. Shareholders should have the right to approve structures that act as anti-takeover mechanisms. Only non-conflicted shareholders should be entitled to vote on such plans and the vote should be binding. Plans should be time-limited and periodically subject to shareholder re-approval. More generally, ICGN opposes anti-takeover devices as they serve to entrench management, diminish their accountability and compromise shareholder rights.

### **3. Institutional investors, stock markets, and other intermediaries**

**3.1. Governance:** Page 23, III.A: We suggest reference to the importance of investors keeping under review the robustness of their own governance arrangements to effectively fulfil stewardship responsibilities with reference to matters such as leadership,

independent oversight, ethics, fees, capabilities, and capacity. This aligns with the ICGN Global Stewardship Principles, first introduced as the Statement of Institutional Shareholder Responsibilities<sup>3</sup> in 2003, and which has served to inspire the development of national stewardship codes around the world.

**3.2.Strategy:** Page 23, III.A: It is commonly recognised as good practice for investors to annually disclose their equity investment strategy and how this contributes to the medium and long-term performance of their assets (for example, in accordance with the European Shareholders Rights Directive).

**3.3.Duties:** Page 23, III.A: We suggest explicit reference to the responsibility of asset owners to clearly incorporate their expectations regarding governance, stewardship, and sustainability practices in the awarding of investment management agreements to ensure that the duties of share ownership are appropriately delivered in the interests of clients and beneficiaries. In this regard, we refer to the Model Mandate<sup>4</sup>, published by the ICGN and UN-supported Global Investors for Sustainable Development Alliance which provides asset owners with guidance to help align their portfolios with long-term investment in sustainable development, specifically the UN Sustainable Development Goals (SDGs). This complements the ICGN Guidance on Investor Fiduciary Duties<sup>5</sup> which expands the concept of investor fiduciary duties beyond 'care' and 'loyalty' to address systemic risks, time horizons and governance as part of investor stewardship obligations.

**3.4.Sustainability:** Page 23, III.A: Investors should analyse, monitor, assess, and integrate sustainability-related risks and opportunities into investment processes across all asset classes to ensure investment decision-making, voting and engagement aligned with sustainability objectives.

**3.5.Voting services:** Page 25, III.D: The use of a proxy advisor is not a substitute for the investors' own responsibility to ensure that votes are cast in an informed and responsible manner. Investors should clearly specify how they wish votes to be cast in accordance with their own publicly disclosed voting policies. Investors using proxy advisor recommendations to guide their voting should be aware of, and comfortable with, the how the proxy advisor's voting policies align with their own.

#### **4. Disclosure and transparency**

**4.1.Remuneration:** Page 30: IV. A. 5: We welcome the amendments regarding CEO and senior executive pay policies and practices in relation to potential adjustments due to extraordinary circumstances, for example, as recently experienced by the Covid pandemic. In such situations, Remuneration Committees should provide reasonable explanations to shareholders on changes in remuneration packages within the context of the external operating environment. More generally, pay disclosure should include the proportions of fixed pay, bonus, and long-term incentives – and extend to non-cash benefits such as director and officer insurance, pension provisions, and terms of severance/retirement packages, if any. The process for remuneration setting, rationale

---

<sup>3</sup> [ICGN Statement of Institutional Shareholder Responsibilities, 2003](#)

<sup>4</sup> [Model Mandate, published by ICGN and GISD Alliance, June 2022](#)

<sup>5</sup> [ICGN Guidance on Investor Fiduciary Duties](#)

for individual levels, and how it fits within the overall context of the company's human resource strategy should also be disclosed.

**4.2.Board composition:** Page 30: IV. A. 6: Boards, and the workforce, should comprise a genuinely diverse group of individuals to ensure effective, equitable and inclusive decision-making in alignment with the company's purpose, succession plan and long-term strategy. This includes directors from different genders, age, ethnicity, nationality, social and economic origins, and professional experience. Boards should annually report against the Diversity Policy, which should include goals, recruitment plans and measurable, time-bound objectives. Independent director appointments should be subject to a formal and transparent procedure based on relevant and objective selection criteria led by a Nomination Committee to help ensure board composition is aligned with the company's long-term strategy, succession planning, and diversity policy. The rationale for individual director appointments should be clearly disclosed including factors affecting their importance. Disclosure should also demonstrate how their experience relates to a Skills Matrix which should be aligned with company strategy.

**4.3.Foreseeable risk factors:** Page 32: IV. A. 8: We suggest elaboration on what constitutes 'sufficient and comprehensive information'. For example, this could include a description of risk in the context of the company's strategy, risk to returns expected by shareholders, risk oversight approaches and processes, how lessons learnt have been applied to improve future outcomes, and the principal risks to the achievement of strategic objectives. Disclosure should include any systemic risks that could threaten its viability, such as the impact of regulatory or fiscal policy changes, technological disruption, protectionism, environmental damage, climate change, or social risks prompted by wealth inequality.

**4.4.Debt contracts:** Page 32: IV. A. 10: We appreciate reference to timely disclosure of material information relating to debt contracts, including the risk of non-compliance with covenants. This will enable investors to better understand a company's business risk profile.

**4.5.Board accountability for corporate reporting:** Page 33: IV. C. Paragraph one refers to the responsibility of the company's management for financial statements. While we agree that management representatives are responsible for this, the board is also accountable for financial and sustainability-related information in the annual report and accounts which should present a balanced and understandable assessment of the company's position and long-term prospects. There is a growing expectation that sustainability performance data should be provided with audited/reasonable assurance.

**4.6.Audit Committee reporting:** Page 34: IV.D. Regardless of ownership structure we believe that boards should establish an Audit Committee comprised wholly of independent directors. The committee mandate should be disclosed including its role in oversight of the integrity of the financial statements, key accounting policies, internal control, risk management, climate risk, audit quality, and auditor independence. Names of committee members and independence status should be disclosed, as well as a summary of key subjects discussed and attendance records. More generally, the committee should report to shareholders on any significant issues arising from the audit and the effectiveness of the audit process including auditor selection, tenure, independence, fees, and the provision of any non-audit services.

**4.7. Capital allocation:** Section IV: Boards should regularly review the company’s balance sheet to understand how cash positions, debt and equity are blended to achieve acceptable returns for shareholders, while maintaining a sufficient level of capitalisation and liquidity to ensure a cushion against foreseeable risks. It is also important for companies to disclose their weighted average cost of capital to allow for an understanding of the company’s economic profitability. A clear capital allocation policy should be disclosed and reviewed annually by the Board to help ensure that cash is employed in activities which are aligned with the company’s purpose and strategic objectives to generate long-term value and to guide capital allocation decisions. In particular, the rationale for holding non-strategic assets that may not be core to the company’s own business or sector should be clearly disclosed. If the rationale is insufficient and deemed to be value destructive (i.e., suffering from low profitability below the cost of capital), such assets should be sold, and proceeds returned to shareholders or used to invest in value enhancing activities. Additionally, the rationale for shareholder returns should be disclosed whereby dividends and share buybacks should be set by determining the use of free cash flow in the context of the balance sheet.

ICGN has encouraged policy makers and regulators to focus on developing corporate governance frameworks with a view to impacts on capital formation “opportunities,” not, however, in isolation from balancing such considerations against investor protection objectives. Trading one against the other could lead to a “race to the bottom” policy and regulatory decision-making that does not adequately take into account investor interests, thus undermining the goal of promoting transparent and well-functioning markets. Perhaps adding the words: “while balancing investor protection mandates and objectives” to the end of the proposed sentence would suffice. This proposed amendment is consistent with the public policy benefits of corporate governance frameworks outlined in the draft Principles’ preamble paragraphs: the first policy objective identified is to help companies “access financing from capital markets” and the second is investor protection.

## **5. The responsibilities of the board**

**5.1. Director’s duties:** Page 35: V. A: ICGN supports the updated reference to director duties which is analogous to Guidance 1.2 of the ICGN Principles: “Directors have a legal duty to act on an informed basis, with good faith, care, and loyalty to promote the long-term best interests of the company to preserve and enhance sustainable value creation. Implicit in this concept is the need to generate economic risk-adjusted returns on capital for shareholders, while having regard to relevant stakeholders, and wider societal and environmental interests.”<sup>6</sup> We also note that Article 25 of the European Union’s Corporate Sustainability Due Diligence Directive refers to director’s duties that call for directors to ‘take into account the consequences of their decisions for sustainability matters, including, where applicable, human rights, climate change and environmental consequences, including in the short, medium and long term.’ This definition employs similar phrasing to both the ICGN, OECD and UK (Section of the 2006 Companies Act).

**5.2. Competence.** Page 35: V. A: In addition to ensuring that board directors act on a fully informed basis, directors should be required to undertake professional development as

---

<sup>6</sup> ICGN Global Governance Principles, p.10.



required, particularly to ensure board competence in dealing with sustainability-related matters and emerging systemic threats.

**5.3.Ethics:** Page 36: V. C. Boards should instil and demonstrate a culture of high standards of business ethics and integrity aligned with the company’s purpose and values. There should be clear policies and procedures concerning, anti-corruption, whistleblowing processes, political lobbying, employee share dealing, stakeholder relations, human rights, workforce safety and tax policy.

**5.4.Board functions:** Page 37: V.D.1: We agree with the key functions described in this section and additionally suggest the following core board responsibilities:

- Publicly disclose a clear corporate purpose to guide management’s approach to strategy, innovation, and risk.
- Engage constructively with shareholders on governance, sustainability, and performance.
- Understand the perspectives of relevant stakeholders and disclose how their interests are taken into account.
- Be accountable for the governance of sustainability ensuring the integration of financial, human, and natural capital management in strategy, innovation, and risk.

**5.5.Risk:** Page 37: V.D.2: ICGN welcomes the update to reference the board’s role in overseeing risk management including threats to the company’s business model, cyber-security, supply chain resilience, performance, solvency, liquidity, and reputation. Wider systemic risks should also be considered such as those identified in the United Nation’s Sustainable Development Goals.

**5.6.Executive and board director remuneration:** Page 38: V.D.5: In determining executive and board director pay, a Remuneration Committee, comprised wholly of independent directors, should be established and the committee mandate should be disclosed including the committee’s role in relation to the remuneration policy, incentives, performance metrics and assessment, and engaging with shareholders. Names of committee members and independence status should also be disclosed as well as a summary of key subjects discussed and attendance records. Independent board director pay should be disclosed annually and on an individual basis and be structured in a way which ensures independence, objectivity, and alignment with the long-term interests of the company and its shareholders. Independent directors should not receive incentive-based compensation, ensuring their remuneration structure does not incentivise behaviours that could inhibit the long-term sustainability and success of the underlying company, per the ICGN Global Governance Principles and the ICGN Guidance on Non-executive Director Remuneration.<sup>7</sup>

**5.7.Board appointments:** Page 38: V. D.6: We suggest strengthened language around the importance of establishing a Nomination Committee comprised of an independent Chair and a majority of independent directors. The committee mandate should be disclosed including formal and transparent procedures for ensuring board member appointments are based on relevant and objective selection criteria aligned with the company purpose, long-term strategy, succession plan, Diversity Policy and any factors affecting their independence. Names of committee members and independence status should also be

---

<sup>7</sup> [ICGN Guidance On Non Executive Remuneration AUG16](#)

disclosed as well as a summary of key subjects discussed and committee member attendance records. The rationale for all director appointments (executive and independent) should be disclosed by the committee including how their experience relates to a Skills Matrix with indicators that are clearly defined and aligned with the company's long-term strategy.

**5.8. Internal control and internal audit:** Page 39: V.D.8: Boards are responsible for overseeing the establishment and maintenance of an effective system of internal controls to properly manage risk. Controls should be measured against internationally accepted standards of internal audit and tested periodically for adequacy. Where an internal audit function has not been established, full reasons for this should be disclosed in the annual report. These reasons should include an explanation of how adequate assurance of the effectiveness of the system of internal controls has been obtained.

**5.9. Board independence:** Page 40: V.E. Boards should comprise a majority of independent directors who play a crucial role in constructively challenging management, free from external influence. By drawing on their personal competencies and experience, they can contribute to a diversity of perspectives to generate healthy debate in the boardroom and represent the interests of minority shareholders. This is particularly important for listed companies having controlling shareholders with 30% or more voting rights whereby independent directors should comprise a majority of the Board and thereby can act as a sufficient check on controlling owner influence to ensure minority shareholder rights are upheld.

**5.10. Independence definition:** Page 40: V.E. In the annual report, boards should identify the names of the directors considered to be independent and able to exercise independent judgement free from any external influence. Disclosure should include how long conflicts should be absent before a board candidate can be considered independent. Independence criteria should be reviewed annually as relevant to the company and include matters such as cross-shareholdings, major client and supplier relationships, business relationships, the provision of consultancy services, and family ties.

**5.11. Board leadership:**

Page 40: V.E: The roles of the Board Chair and CEO should be separated to avoid unfettered powers of decision-making in any one individual. The Board should be chaired by an independent director who should be independent on the date of appointment. Should the role of the Chair and CEO be combined, the Board should explain the reasons how this is in the best interests of the company in the annual report and keep the structure under review. A Lead Independent Director should be appointed in these cases. The responsibilities of the Chair and CEO should be clearly described and publicly disclosed.

**5.12. Board effectiveness:**

Page 42: V.E.4: Evaluation of the performance of individual directors (including the Chair) should be referenced in addition to the whole board and committees. Director tenure should be contingent on individual performance and annual re-election premised on satisfactory evaluations of his or her contribution to the board free from potential conflicts of interest. It also should reflect a balance between institutional knowledge and new perspectives. The process for evaluation, communication flows, and decision-making should be disclosed and, as far as reasonably possible, information around the

discussion topics, the conclusions reached (including any material issues arising from the evaluation), and actions forward. A Nomination Committee, comprised of a majority of independent directors (including the committee Chair), should lead the annual self-assessment process and be responsible for appointing an independent consultant to conduct an external evaluation at appropriate intervals.

## **6. Sustainability and resilience**

**6.1. Sustainability disclosure:** Page 45, VI. A: ICGN supports the provision of corporate sustainability disclosure to help facilitate rigorous, consistent, comparable, and verifiable sustainability-related information upon which investors can assess and price sustainability related risk, opportunity, and resilience in investee companies. Importantly, with regards to climate change, such reporting provides a tool for assessing progress towards achieving corporate transition plans and carbon neutral investment portfolios as the world advances towards a net zero economy by 2050.

**6.2. Materiality:** Page 45. VI. A.1: ICGN is supportive of the EU/EFrag 'double' materiality approach requiring companies to report not only on sustainability factors impacting the performance of a company but also the impact of the company itself on society and the environment. We also recognise the technical challenges that come with its implementation. At the same time, we also support the 'single' materiality approach advanced by the International Sustainability Standards Board (ISSB) which measures sustainability impacts - starting with climate - on the financial position and prospects of the company itself. This approach has the most immediate relevance for institutional investors with fiduciary responsibilities. We understand that ISSB will focus on other broader sustainability factors over time. Under ISSB's approach, investors are intended as the primary users of corporate reports, which is distinct from the EU/EFrag position, which considers both investors and stakeholders as the audience. As public and political scrutiny on the role of companies (and investors) in society increases, it is in all our interests to harmonise these concepts to facilitate truly global sustainability reporting standards.

**6.3. Reporting standards and frameworks:** Page 46: VI.A.2: ICGN welcomes assertive action by regulators and standard-setters on sustainability-related reporting. We have responded to multiple consultations on the subject including to EFRAG, ISSB, US SEC and other national regulators. This follows our Statement to COP 26 in March 2022 setting out expectations of key market actors in relation to climate change. We support the development of globally harmonised sustainability reporting standards to help minimise regulatory fragmentation. We therefore encourage the ongoing coordination of efforts to establish complementary and interoperative standards that also connect historic and forward-looking information. These standards should be applied to both public and private companies. The pace of adoption should be tailored according to company scale given the greater resource constraints faced by small to medium sized companies, relative to larger peers. This extends to companies operating in the Global South, the countries that are reliant upon financial support promised by richer nations to implement net zero plans but not yet fully received.

**6.4. Governance:** Page 46: VI.A.3: We welcome disclosure requirements for the governance of sustainability which includes board expertise, resources and the processes and

frequency by which the board and/or committees discuss sustainability-related risks.<sup>8</sup> This should be explicitly referred to in the Board Charter or appropriate committee terms of reference, along with the responsibility for sustainability risks and opportunities more broadly. We note that the EU CSRD requires sustainability reporting standards to include information around the companies administrative, managerial, and supervisory bodies as well as describing their expertise, incentives, internal controls, and risk management related to sustainability.

**6.5.Targets and plans:** Page 46: VI.A.4: Boards should disclose the company’s public commitment to net zero targets by 2050 and describe how they oversee the adaption of business models to net zero carbon emissions through credible and actionable net zero transition plans aligned with the company’s purpose and long-term strategy.

**6.6.Connectivity:** Page 46: VI.A.3: The financial consequences of sustainability impacts on a company should be consolidated within the financial statements (including in the Notes). The publication of a separate sustainability report as a standalone document without linkage to the financial statements could imply that such impacts are not financial or material, which is misleading. Both should be published at the same time.

**6.7.Assurance:** Page 46: VI.A.5: Investors expect auditors to ensure that climate related assumptions and judgements are sound, and that the financial statements provide a fair representation of a company’s economic health. While it may take some time for auditors to build capacity to provide this level of assurance, ICGN welcomes enhanced regulatory scrutiny to expedite greater use of existing rules which will improve climate-related assurance. Recent guidance by the International Auditing & Assurance Standards Board clarifies for auditors that material climate risks should be considered in the same manner as any other material factor in the audit process. Additionally, the International Accounting Standards Board published guidance to companies for including climate considerations in financial statements in-line with existing standards. National regulators have reinforced this message to both companies and auditors: they must, under existing rules, ensure they cover material climate risks. Both the U.K.’s Financial Reporting Council and the European Securities Markets Authority issued statements in 2021 warning issuers of their increasing scrutiny.

**6.8.Strategy and risk:** Page 47: VI. C: Companies should describe the impact of physical and transition risks and opportunities on business models and company strategy over the short, medium, and long-term. This should be aligned with credible and actionable net zero transition plans including quantitative metrics and targets. The strategy should be periodically reviewed and progress towards achieving key objectives reported annually. Disclosure should describe the resilience of the business taking account of different scenarios and include both qualitative and quantitative information. Optimally, disclosure should also include the engagement with industry bodies to support the firm’s own public positions on these issues. This will help investors understand how each scenario will impact risk, strategy, business model and future cash flows, and whether the public reporting mirrors any advocacy.

**6.9.Scope 1, 2 and 3 greenhouse gas emissions:** We support mandatory disclosure of Scope 1, 2 and 3 greenhouse gas emissions. Scope 3 disclosures are material for at least 68 out of 77 sectors as described by SASB and should be mandatory. A “comply or

---

<sup>8</sup> See ICGN Viewpoint- The Governance of Sustainability: An Investor View of Board Effectiveness, September 2022.

explain” approach may be appropriate for the remaining 9 industry sectors that the SASB regards as having less material exposure to climate risks. We also think that any company publicly proclaiming a net zero strategy, regardless of sector, should disclose Scope 3.

**6.10.CEO/executive remuneration:** ICGN encourages better disclosure around how CEO and executive performance pay correlates with sustainability-related KPIs, based on audited financial data, and their ties to long-term strategy. The rationale for remuneration awards should be described, including sustainability-related objectives, and progress towards achievement monitored.

**6.11.Bondholders:** Page 49: VI.D.6: We appreciate the new section related to the role of bond holders in corporate governance. ICGN’s own Global Governance Principles features new emphasis on the role of holders of debt securities in supporting high standards of corporate governance practices. Creditors generally seek a stable and predictable credit risk profile and shareholders have a focus on upside potential and risk adjusted returns on capital. Effective engagement by creditors and shareholders reflects the understanding that a sustainable company must satisfy the basic and legitimate requirements of its capital providers.

Thank you for the opportunity to comment on the Draft Revisions to the G20/OECD Principles of Corporate Governance. I look forward to elaborating on ICGN’s recommendations at the consultation meeting being held in Paris on 21 November 2022. In the meantime, please do not hesitate to contact me or ICGN’s Policy Director George Dallas should you have any questions about our letter.

Yours faithfully,



Kerrie Waring  
Chief Executive Officer  
International Corporate Governance Network  
[Kerrie.waring@icgn.org](mailto:Kerrie.waring@icgn.org)

Copy: George Dallas, **ICGN Policy Director** ([George.dallas@icgn.org](mailto:George.dallas@icgn.org))  
Carol Nolan Drake, **ICGN Governance & Stewardship Policy Manager**  
([Carol.nolandrake@icgn.org](mailto:Carol.nolandrake@icgn.org))  
Robert Walker, **ICGN Sustainability Policy Manager** ([Robert.walker@icgn.org](mailto:Robert.walker@icgn.org))