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Friday 21 October 2022

Dear OECD colleagues,

### **Public Consultation on the Review of the G20/OECD Principles of Corporate Governance**

We welcome the opportunity to respond to your consultation on the review of the G20/OECD principles of corporate governance.

The Quoted Companies Alliance has examined the proposals and responds from the viewpoint of small and mid-sized quoted companies in the UK. The QCA is the independent membership organisation that champions the interests of small to mid-sized quoted companies in the UK. We have over 200 listed company members and over 80 advisory members, drawn from market participants such as investors, brokers, accountants and lawyers. Together, we seek to create an environment where these businesses can grow and deliver sustainable long-term benefits for investors and wider society.

As a general comment, the OECD's principles are a useful tool in providing guidance to national policy-makers and regulators of corporate governance, whilst recognising that harmonising rules is not an appropriate course of action.

Overall, we welcome the approach taken by the OECD to update its principles in light of recent evolutions in capital markets and corporate governance policies and practices. In particular, we welcome both the identification of the priority areas being taken into consideration during the review including in relation to ESG risks, digitalisation, and the role of institutional investors and stewardship and the objectives of the review to strengthen corporate sector resilience and improve access to finance. These recognise, and build on, the national experiences during the Covid-19 pandemic and on longer-term developments in the corporate landscape.

### **Comments on Section 1 (Ensuring the basis for an effective corporate governance framework)**

We wholeheartedly welcome the inclusion of the statement in section I.A. regarding the role that public equity markets perform in providing companies with capital that allows them to innovate and support economic growth. As highlighted in the revisions, equity financing supports a company's resilience in overcoming downturns while meeting their obligations to employees, creditors and suppliers. It is, therefore, imperative that policy makers and regulators in all jurisdictions take this into consideration and ensure that

the corporate governance framework encourages the use of public equity markets rather than threaten their potential to produce these positive outcomes.

#### **Comments on Section 2 (The rights and equitable treatment of shareholders and key ownership functions)**

We welcome the inclusion of paragraph II.C.3 regarding general shareholder meetings being permitted in virtual or hybrid format. This helps to facilitate and reduce the costs to shareholders of participation and engagement.

#### **Comments on Section 3 (Institutional investors, stock markets and other intermediaries)**

The inclusion of the statement in section III.A. is important as the corporate governance framework should seek to strengthen both institutional investor accountability and their engagement with their investee companies.

Regarding section III.D. on regulated entities such as proxy advisors and rating agencies, we welcome the addition of the statement that the methodologies used by these organisations should be transparent and publicly available. We also support the reference that some jurisdictions require that proxy advisors apply and disclose a code of conduct as we believe this is an important mechanism to use to be able to hold them to account and ensure they are transparent in their processes and practices.

#### **Comments on Section 4 (Disclosure and transparency)**

Broadly, we agree with the additions in this section and have no specific comments.

#### **Comments on Section 5 (The responsibilities of the board)**

We welcome the inclusion of section V.A.1. stating that board members should be protected against litigation if a decision was made in good faith and with due diligence.

We agree with the additions outlined in section V.E.2. that boards should consider setting up specialised committees to support the board in performing its functions.

We support the additions to section V.E.4. and the recommendation that “boards should regularly carry out evaluations to appraise their performance and assess whether they possess the right mix of background and competences, including with respect to gender and other forms of diversity”. In particular, it is important that companies encourage greater diversity and transparency on company boards and executive committees. Greater diversity has the potential to produce many benefits, such as improved corporate governance practice and, arguably, corporate performance. It is important that companies are able to benefit from the positive consequences of increased diversity.

However, we do not agree with the inclusion of the reference to mandatory quotas. While setting targets/quotas are important in encouraging improvements, they are, in effect, arbitrary figures and may not reflect genuine attempts to improve diversity within a company.

#### **Comments on Section 6 (Sustainability and resilience)**

Broadly, we welcome the addition of the new chapter on sustainability and resilience and agree with the overarching principle that “*the corporate governance framework should provide incentives for companies and their investors to make financing and investment decisions, as well as to manage their risks, in a way that contributes to the sustainability and resilience of the corporation*”. It is now a widely followed approach that companies should deal with sustainability matters by upgrading their disclosures.

It is pleasing to see that the proposed addition does not seek to redefine the purpose of the corporation or the duties of directors. The rationale for the Principles should be to help shape a legal and regulatory framework that supports sustainable economic growth and stability but should never seek to extend the duties of directors or the meaning of the corporation beyond what is possible or practicable.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'TW', with a stylized flourish extending to the right.

Tim Ward  
Chief Executive  
Quoted Companies Alliance