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OECD Invites Comment on Draft Revision of its Corporate Governance Principles

The OECD is inviting public comment on a draft of the revision of its Principles of Corporate Governance that were adopted by OECD governments in 1999. This follows a request from OECD governments for reinforcement of the Principles in response to recent corporate scandals.

Since they were adopted in 1999, the OECD Principles have been a reference for corporate governance initiatives around the world. The Financial Stability Forum named them as one of the Twelve Key Standards for Sound Financial Systems, and they underpin the corporate governance component of the World Bank/IMF Reports on Standards and Codes (ROSC).

The OECD Principles are the result of a consensus between participating governments on minimum requirements for best practice. Although they are non-binding, they provide a reference for national legislation and regulation, as well as guidance for stock exchanges, investors, corporations and other parties.

"Recent events have highlighted a number of areas in which the Principles can appropriately be strengthened," OECD Secretary-General Donald J. Johnston said. "Once a new text is agreed, it will be up to governments, companies, investor groups and others to implement the recommendations and the OECD will follow this process closely."

The draft text now made public for comment is the fruit of consultations over the past year with governments and representatives of business, professional groups, labour and civil society in both OECD and non-OECD countries. The draft, issued under the responsibility of the OECD Secretariat, represents work in progress. Subsequent versions will take into account comments received during this consultation as well as additional comments by members of the OECD Steering Group on Corporate Governance.

The OECD Principles already cover many of the issues that have been at the centre of recent corporate scandals. They include recommendations on high quality standards of accounting and audit, the independence of board members and the need for boards to act in the interest of the company and the shareholders.

The new draft text, in addition, sets more demanding standards in a number of areas. It specifies that investors should have both the right to nominate company directors and a more forceful role in electing them. It states that shareholders should be able to express their views about compensation policy for board members and executives and submit questions to auditors. It calls on institutional investors to disclose their overall voting policies and how they manage material conflicts of interest that may affect the way they exercise key ownership functions, such as voting.

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The text also identifies the need for effective protection of creditor rights and an efficient system for dealing with corporate insolvency. It calls on rating agencies, brokers and other providers of information that could influence investor decisions to disclose conflicts of interest and how they are being managed. It also calls on boards to be more rigorous in disclosing related party transactions and to protect so-called “whistle blowers” by allowing them confidential access to a contact at board level

It is anticipated that a final revised version of the Principles will be submitted to OECD governments for approval at the annual meeting of the OECD Council at Ministerial Level on 13-14 May 2004.

For further information, journalists are invited to contact Nicholas Bray, OECD’s Media Relations Division (tel. [33]1 45 24 80 90 or Nicholas.bray@oecd.org).

See draft revision of Principles of Corporate Governance: http://www.oecd.org/dataoecd/19/29/23888981.pdf