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## OECD Countries Agree New Corporate Governance Principles

The governments of the 30 OECD countries have approved a revised version of the OECD's Principles of Corporate Governance adding new recommendations for good practice in corporate behaviour with a view to rebuilding and maintaining public trust in companies and stock markets.

The revised Principles respond to a number of issues that have undermined the confidence of investors in company management in recent years. They call on governments to ensure genuinely effective regulatory frameworks and on companies themselves to be truly accountable. They advocate an increased awareness among institutional investors and an effective role for shareholders in executive compensation. They also urge strengthened transparency and disclosure to counter conflicts of interest.

The OECD Principles of Corporate Governance, first published in 1999, have been widely adopted as a benchmark both in OECD countries and elsewhere. They are used as one of 12 key standards by the Financial Stability Forum for ensuring international financial stability and by the World Bank in its work to improve corporate governance in emerging markets.

In 2002, OECD governments called for a review of the Principles to take account of developments in the corporate sector. The revised text is the product of a consultation process involving representatives of both OECD and non-OECD governments as well as of businesses and professional bodies, trade unions, civil society organisations and international standard-setting bodies.

Veronique Ingram, Chair of the OECD Steering Group on Corporate Governance, said: "The revised Principles emphasise the importance of a regulatory framework in corporate governance that promotes efficient markets, facilitates effective enforcement and clearly defines the responsibilities between different supervisory, regulatory and enforcement authorities. They also emphasise the need to ensure transparent lines of management responsibility within companies so as to make boards and management truly accountable."

Other issues addressed by the revised Principles include:

### Institutional investors

- They should disclose their corporate governance policies, how they decide on the use of their voting rights and how they manage conflicts of interest that may compromise their voting;
- Restrictions on consultations between shareholders about their voting intentions should be eased to reduce the cost of informed ownership.

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#### Shareholder rights

- The rights of investors must be strengthened. Shareholders should be able to remove board members and participate effectively in the nomination and election processes;
- They should be able to make their views known about executive and board remuneration policy and any equity component should be subject to their approval.

#### Conflicts of interest and auditor responsibility

- A new principle calls for rating agencies and analysts to avoid conflicts of interest which could compromise their advice;
- The duties of the auditor must be strengthened and include accountability to shareholders and a duty to the company to exercise due professional care when conducting an audit;
- Auditors should be wholly independent and not be compromised by other relations with the company.

#### Stakeholder rights and whistle-blower protection

- The Principles make reference to the rights of stakeholders, whether established by law or through mutual agreements.
- A new principle advocates protection for whistleblowers, including institutions through which their complaints or allegations can be addressed and provides for confidential access to a board member.

#### Board responsibilities

- The duties and responsibilities of the board have been clarified as fiduciary in nature, particularly important where company groups are concerned;
- The principle covering board independence and objectivity has been extended to avoid conflicts of interest and to cover situations characterised by block and controlling shareholders, as well as the board's responsibility for oversight of internal control systems covering financial reporting.

For further information, journalists are invited to contact Spencer Wilson, OECD's Media Relations Division (tel. [33] 1 45 24 81 18 or [spencer.wilson@oecd.org](mailto:spencer.wilson@oecd.org)).

The revised Corporate Governance Principles are available on the OECD web site at <http://www.oecd.org/daf/corporate/principles>

For any comments, questions or suggestions concerning the OECD Principles on Corporate Governance, please contact OECD Corporate Affairs Division ([corporate.affairs@oecd.org](mailto:corporate.affairs@oecd.org)).