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What emerging challenges does the OECD foresee that businesses will have to address in corporate governance over the next decade, and what strategies do you recommend for effectively addressing them?

<u>One issue is the large decrease in the number of publicly listed companies in most OECD economies.</u>

The decline in the number of listed companies has a number of reasons. One has been the lower cost of debt financing, another is improved access to private capital, and a third is consolidations through high M&A activity. The fact that some small companies find the disclosure and reporting requirements that come with being listed too cumbersome is another factor.

The revised G20/OECD Principles of Corporate Governance can play an important role in addressing these issues and improving market dynamism. Having a single global standard in the field of corporate governance helps to contribute to shared expectations for how corporations should treat their shareholders and disclose information, which can facilitate the flow of global capital and the conditions for more dynamic markets. In addition, flexibility and proportionality measures that lighten regulatory burdens where appropriate may support greater market access for smaller companies. And digitalisation may lower listing fees and facilitate less cumbersome compliance for companies.

<u>Another issue is the ambition of maintaining high regulatory standards for corporate governance while addressing the preference of non-listed companies not to go public to avoid having to comply with such regulation.</u>

Promoting well-functioning capital markets and access to market-based finance was one of the overarching objectives of the review. So for each priority topic, for example sustainability or the digital transformation, we considered how recommendations on these topics would also impact the functioning of capital markets, and how we can ensure that capital markets remain a viable and appealing source of finance for corporations to support innovation and growth.

How does the OECD envision that the evolution of technologies, such as artificial intelligence and blockchain, will impact corporate governance in the future, and what recommendations can you provide to businesses to harness these advancements while maintaining ethical practices?

Digitalisation has important implications for both corporate governance and corporate finance. One aspect is its potential to improve disclosure and regulatory efficiency. We already see many countries working to develop technology-driven solutions to improve their regulatory and supervisory practices. Another concern is what role should boards of directors play in the management of digital security risks, which will only grow more important as the digital economy continues to develop.

Digitalisation also has an impact on corporate finance and can play a role in the development of public equity markets. Recent innovations include direct listings, online book building and decentralised finance. The revised G20/OECD Principles of Corporate Governance address these trends by providing recommendations on the regulation of supervision of corporate governance practices, virtual and hybrid shareholder meetings, and the role of boards in managing risks. Importantly, they also stress the importance for regulators of adopting a technology neutral approach.

In light of global issues such as climate change and sustainability, how is the OECD encouraging businesses to incorporate ESG (Environmental, Social, Governance) considerations into their governance strategy for the future, and what are the best practices to promote sustainable governance?

The revised G20/OECD Principles of Corporate Governance contain a new chapter on sustainability. An important issue is sustainability-related disclosure.

Better disclosure is critical as it will allow capital markets to close the gap between today (the decisions boards and investors are making) and the long-term (a future of carbon neutrality). Not surprisingly, disclosure was one of the main issues discussed during the review, and the revised Principles offer a number of recommendations in this respect. Importantly, the inclusion of these new recommendations mean the Principles are the first international standard on corporate sustainability.

The Principles: (i) clarify the concept of materiality; (ii) support the adherence of jurisdictions to internationally recognised standards that facilitate the comparability of sustainability-related disclosure across companies and markets; (iii) aim to ensure that verifiable metrics are disclosed if a company publicly sets a sustainability-related goal or target; and (iv) encourage external assurance of sustainability-related disclosures.

Materiality was an important issue in the revision of the principles and they have been updated to reflect the nuances in the discussion. The revised Principles consider sustainability-related information to be material if it can reasonably be expected to influence an investor's assessment of a company's value, investment or voting decisions. However, the Principles do recognise that some jurisdictions may also require or recommend the disclosure of sustainability matters critical to a company's key stakeholders or a company's influence on non-diversifiable risks in addition to the disclosure that is material to investors.