

- Public Online Consultation on Corporate Governance and the Financial Crisis -

Deadline for response: 16th April 2009

Purpose of the Consultation

The purpose of the consultation is to seek advice from the private sector, key stakeholders, civil society and non-OECD countries on the following topics:

- the role of corporate governance in the financial crisis
- identifying the most urgent areas for reform
- how OECD can improve and support implementation of agreed standards
- how OECD can support national, regional and global initiatives

The consultation will provide input to a set of recommendations relating to the Principles of Corporate Governance in the light of the financial crisis that the OECD will issue later this year. It will also help to guide the medium term orientation of OECD's corporate governance work and facilitate co-ordination among different organisations and institutions that are active in the area of corporate governance.

Issues for Discussion

The issues paper contains a set of specific questions that participants are invited to address. You are also welcome to comment on the OECD report on Corporate Governance Lessons from the Financial Crisis, which the OECD Steering Group discussed in November 2008.

This discussion aims to address the role of corporate governance in the financial crisis at two levels:

- **Monitoring, implementation and enforcement.** The question is, how implementation of existing standards and codes can be more effective. How can we ensure that the desired outcomes in terms of responsibility, transparency and equitable treatment are achieved, rather than just formal compliance? Second, the consultation will discuss
- **Specific areas for improvement.** The OECD Steering Group on Corporate Governance has identified four areas for such a review: board practices; effective implementation of

risk management; governance of the remuneration process and the exercise of shareholder rights.

Context, Timetable and Output

The OECD is working towards a report on how better corporate governance and improved implementation can contribute to the G20 agenda of restoring global growth and achieve needed reforms in the world's financial system. In November 2008, the OECD Steering Group on Corporate Governance met in Paris to decide on the overall scope of this report which will identify a set of recommendations regarding the OECD Principles in the areas most closely related to the financial crisis.

As the international standard setter, the Steering Group also underlined that the process of developing the report should include consultations with the broadest possible range of representatives from non-OECD countries, the private sector, other stakeholders and civil society.

The Steering Group has established the following timetable for its work:

- > 8 March: Consultation on corporate governance and the financial crisis
- > March/April: Online public consultation seeking the contribution of stakeholders
- > 30 March: Progress report to the Financial Stability Forum
- > April 20-21: First draft with preliminary conclusions and recommendations to be reviewed by the OECD Steering Group on Corporate Governance
- > 25 June: Interim report to the OECD Ministerial Meeting
- > November: Final Report with Conclusions and Recommendation

Contacts

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Issues for Consultation

Governance of Remuneration

- What are the most important features of a well governed process for deciding on compensation in a company? Which should be the role of shareholders in this process?
- What are the main risks associated with performance based compensation? How can they be identified and taken into account?
- Should risk managers and the boards' risk management function be formally involved in the design of compensation schemes?

Implementation of Risk Management

- What is the most important step a company can take if it wants to improve its risk-management system?
- How shall the internal governance structure be designed to support active and effective implementation of risk-management throughout the company?
- What are the respective roles and responsibilities of the board, board committees, auditors, key executives, employees and other that may be involved?

Board Practices

- What is the main lesson from the fact that boards have been unable to direct their companies away from important meltdowns? Is it just a matter of competence or have companies become too large and complex to allow effective board oversight?
- What needs to be done to restore the confidence in the board of directors as a key pillar in corporate governance? Shall legislators and standard setters try to regulate further the composition, qualifications and size of boards in public companies?

Exercise of Shareholder Rights

- What role did large institutional shareholders play in the financial crisis? In their role as investors and in their role as owners?
- Would additional shareholder rights have changed anything in terms of their ability or willingness to monitor CEO's and boards?
- In terms of their own business model, incentives and governance structure, what is the most important obstacle to more active and informed ownership by institutional investors?

The Implementation Gap

While we may need to take a fresh look at some of the existing standards, there is broad agreement that effective implementation will remain a concern. Many countries and companies with formally good standards have still failed.

- What needs to be done at national and corporate level to close the gap between formal compliance and effective implementation?
- How can OECD contribute to better monitoring of implementation? How can OECD improve its co-operation with governments, business and other stakeholders ?