Response: OECD consultation on its review of the G20/OECD Principles of Corporate Governance

21st October, 2022

Background

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent the operators of over 250 market infrastructures, spread across the Asia-Pacific region (37%), EMEA (43%) and the Americas (20%), with everything from local entities in emerging markets to international groups based in major financial centres. In total, member exchanges trade around $100 trillion a year and are home to some 60,000 companies, with an aggregate market capitalisation of around $120 trillion. The 50 distinct central counterparty (CCP) clearing services (both vertically integrated and stand-alone) collectively ensure that traders put up $1 trillion of resources to back their risk positions.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair and transparent environment for all sorts of investors and companies wishing to invest, raise capital and manage financial risk.

Founded in 1961, the WFE seeks outcomes that maximise financial stability, consumer confidence and economic growth. We also engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play an internationally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

Gergana Tomova, Senior Manager; gtomova@world-exchanges.org

Richard Metcalfe, Head of Regulatory Affairs: rmetcalfe@world-exchanges.org

Nandini Sukumar, Chief Executive Officer: nsukumar@world-exchanges.org

Response

WFE welcomes the opportunity to comment on the amendments made to the Principles of Corporate Governance made in light of the recent evolutions in capital markets and corporate governance policies and practices.

We particularly welcome the inclusion of the materiality concept, stewardship codes, digital technologies and advancement and the introduction of a separate chapter on Sustainability and resilience. We would also want to emphasise the importance of avoiding one-size-fits-all approach to sustainability-related standards in order to avoid undue constraints and potential conflicts. The Principles should allow enough flexibility on local level regarding which entity or governing body should oversee the implementation of those standards and where they fall within the regulatory framework or under the Corporate Governance code.

Specific comments

- On "6. Third, well-designed corporate governance policies ~~may also~~ **are crucial to** supporting the sustainability and resilience of corporations and in turn, may contribute to the sustainability and resilience of the broader economy" (p. 7)

WFE recommends emphasising more the role that corporate governance policies play, especially in a more dynamic market environment, in which approaches to ESG are evolving rapidly. They are crucial for the sustainability and resilience of corporations, and they should contribute to the sustainability of the economy.

- On "A sound framework for corporate governance with respect to sustainability matters, in accordance with a jurisdiction's laws and regulations, practice and organisational arrangements, can help companies recognise and respond to the interests of shareholders and different stakeholders, as well as manage their own long-term success". (p. 7)

WFE suggests adding "practice and organisational arrangements".

- On "Countries seeking to implement the Principles should monitor their corporate governance framework~~, including regulatory and listing requirements and business practices,~~ with the objective of maintaining and strengthening its contribution to market integrity, access to capital markets, and economic performance, and transparent and well-functioning markets." (p. 10)

WFE would encourage reintroducing the deleted text, as listing requirements in particular are relevant to corporate governance and business practices should apply similar standards, in the interests of a level playing field between lit, public markets and opaque private ones.

- On "I.D. Stock market regulation should support effective corporate governance. Stock markets can play a meaningful role in enhancing corporate governance by establishing and enforcing requirements that promote effective corporate governance by their listed issuers. Also, stock markets provide facilities by which investors can express interest or disinterest in a particular issuer's governance by allowing them to buy or sell the issuer's securities, as appropriate. The quality of the stock market's exchanges' rules and regulations that establish for listing criteria for issuers and that for governing trading on its their facilities is therefore an important element of the corporate governance framework. What traditionally were called "stock exchanges" today come in a variety of shapes and forms. Most of the large stock exchanges are now profit maximising and themselves publicly traded joint stock companies that operate in competition with other profit maximising stock exchanges and trading venues. Regardless of the particular structure

> of the stock market, policy makers and regulators should assess the proper role of stock exchanges and trading venues in terms of standard setting, supervision and enforcement of corporate governance rules. This requires an analysis of ~~how~~ **whether** the particular business models of stock exchanges affect the incentives and ability to carry out these functions" (p. 12)

We would welcome more emphasis on the role played by exchanges for capital regulation under specific regulator's requirements and rules. Exchanges work hard to ensure robust infrastructure, including cybersecurity and operational resilience. They demonstrated this extensively through one of the most testing times for financial markets, during the pandemic of the past two years – a period when broker dealers by contrast very clearly faced operational difficulties.

The modern exchange has to be a dynamic and competitive business, constantly investing in new capacity in order to meet the growing demands of investors, issuers of securities, and financial-services companies globally. The exchange therefore performs a valuable role, from which financial-service intermediaries benefit particularly greatly, and which has broader public benefits, serving the businesses that need capital to grow and the investors whose savings can be put to work.