COVID-19 Legacies in a Post-Pandemic World.

2 December 2021

WEBINAR

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Adapting capital markets and corporate governance practices to post-COVID-19 realities

Refinitiv Webinar: COVID-19 Legacies in a Post-Pandemic World
2 December 2021

Serdar Çelik
Acting Head, OECD Corporate Governance and Corporate Finance Division

The OECD Corporate Governance Committee

- The Committee is the custodian of the G20/OECD Principles of Corporate Governance, which were endorsed by the G20 at the Leaders Summit in 2015.
- The Principles have been adopted as one of the Financial Stability Board (FSB)'s Key Standards for Sound Financial Systems.
- All OECD, G20 and FSB jurisdictions, 50 in total, are members of the Committee.

The G20/OECD Principles of Corporate Governance

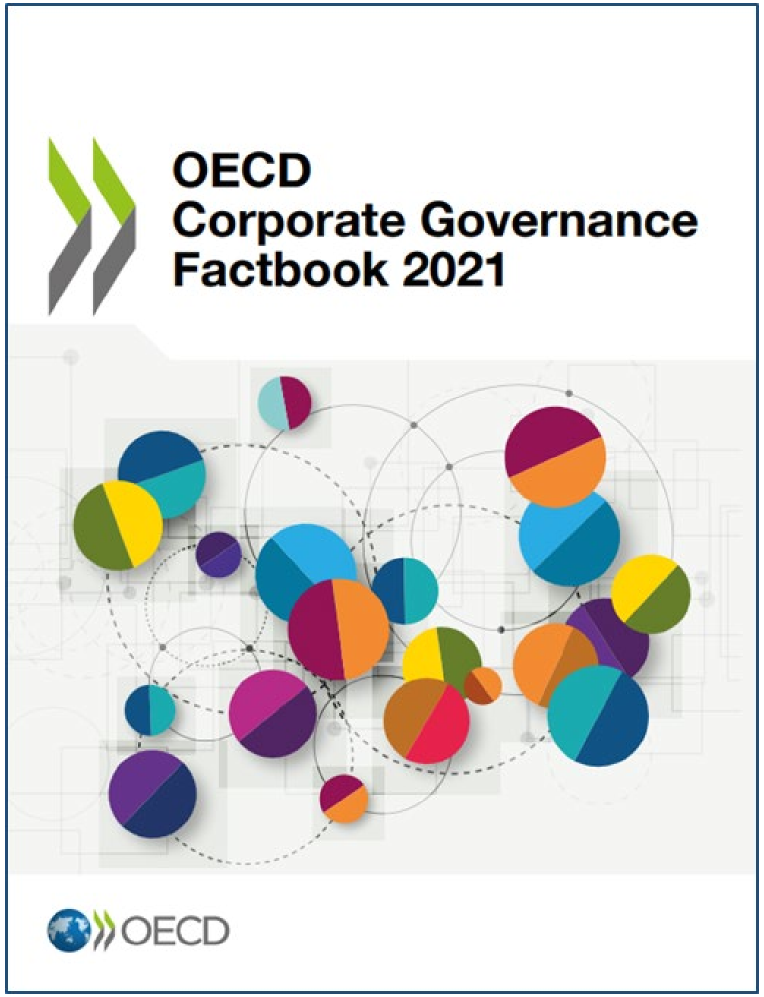
The Principles cover six main areas:

- Ensuring the basis for an effective corporate governance framework
- The rights and equitable treatment of shareholders and key ownership functions
- Institutional investors, stock markets and other intermediaries
- The role of stakeholders in corporate governance
- Disclosure and transparency
- The responsibilities of the board

The review of the G20/OECD Principles

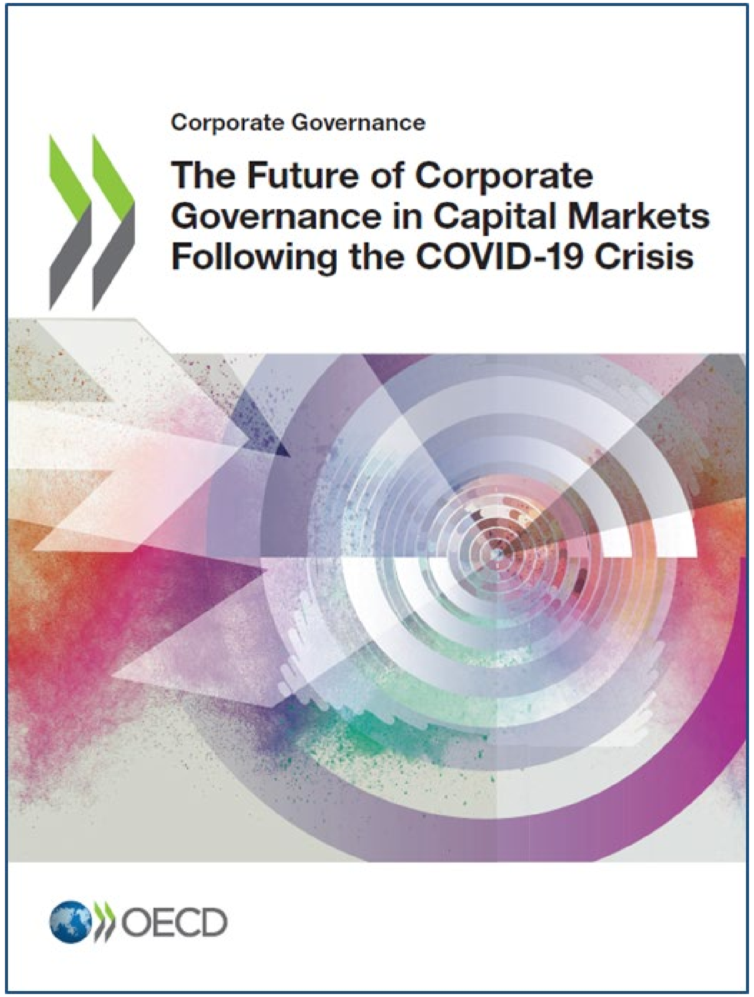
- The OECD's key priority is adapting the G20/OECD Principles to the post-COVID landscape.
- Two reference reports: "The Future of Corporate Governance in Capital Markets Following the COVID-19 Crisis" and the 2021 OECD Corporate Governance Factbook.
- Informed by the reports, the Committee has agreed to review the G20/OECD Principles of Corporate Governance.
- The Committee's decision was endorsed by G20 Leaders in October.
- The review was launched last week in Paris.
- Revised draft to be developed during 2022 and circulated for public consultation, with aim to complete revision by 2023.

OECD Corporate Governance Factbook



- Biennial publication
- Covers the 50 largest markets globally.
- Provides easily accessible and up-to-date information on countries' institutional, legal and regulatory frameworks.
- Governments use the Factbook to understand trends and compare their own frameworks with other countries.
- New coverage: oversight of audit, proxy advisory services and gender balance on boards.

The Future of Corporate Governance in Capital Markets Following the Covid-19 Crisis



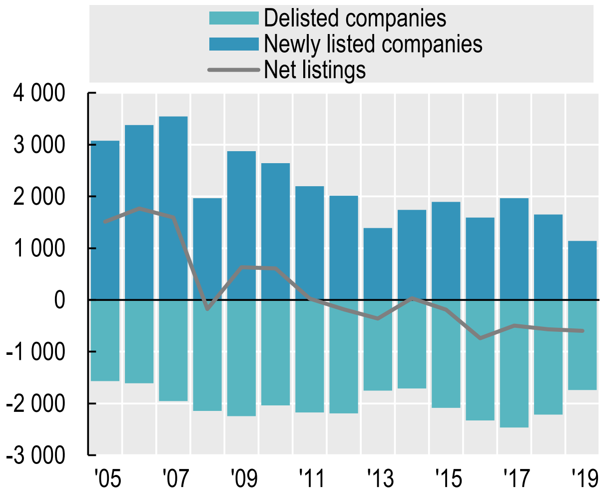
Key policy messages

- Making equity markets support recovery and long-term resilience
- Adapting the corporate governance framework
- Improving the management of environmental, social and governance risks
- Addressing excessive risk taking in the non-financial corporate sector
- Adapting the insolvency and restructuring framework for recovery and resilience

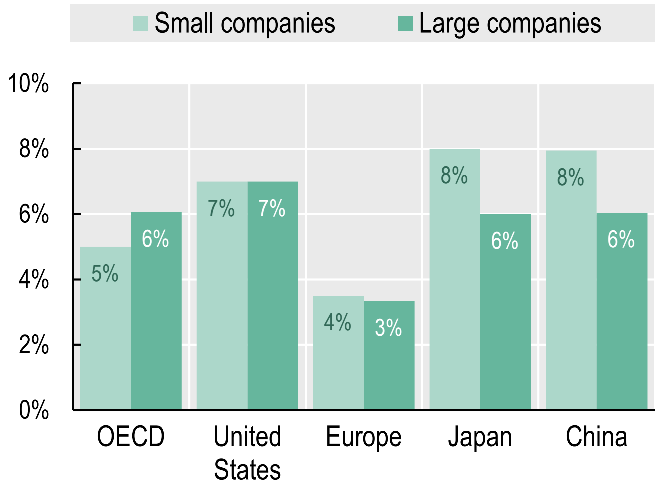
OECD

1. Making equity markets support recovery and long-term resilience

Newly listed and delisted companies globally



Underwriting cost of IPO
for small and large companies



Source: Refinitiv; OECD (2021), The Future Role of Corporate Governance and Capital Markets: Lessons from the COVID-19 Crisis.

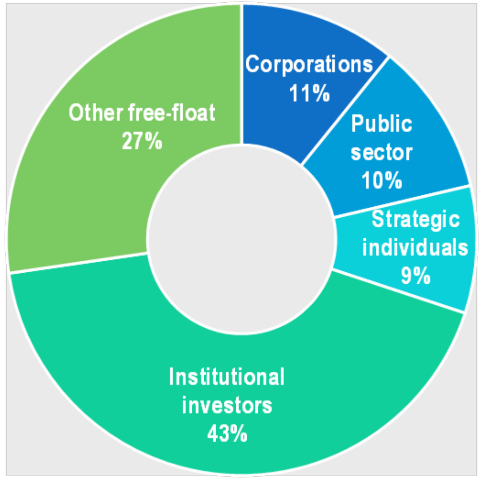
- In an era when recapitalisation of many companies has become vital, the road to recovery will require well-functioning equity markets that can allocate substantial financial resources for long-term investments.
- But since 2005, more than **30 000 companies have delisted** from stock markets globally, notably in the United States and Europe.
- These delistings have not been matched by new listings. This means that many thousand companies have become more distant from direct access to public equity markets in the form of secondary public offerings.

1. Making equity markets support recovery and long-term resilience

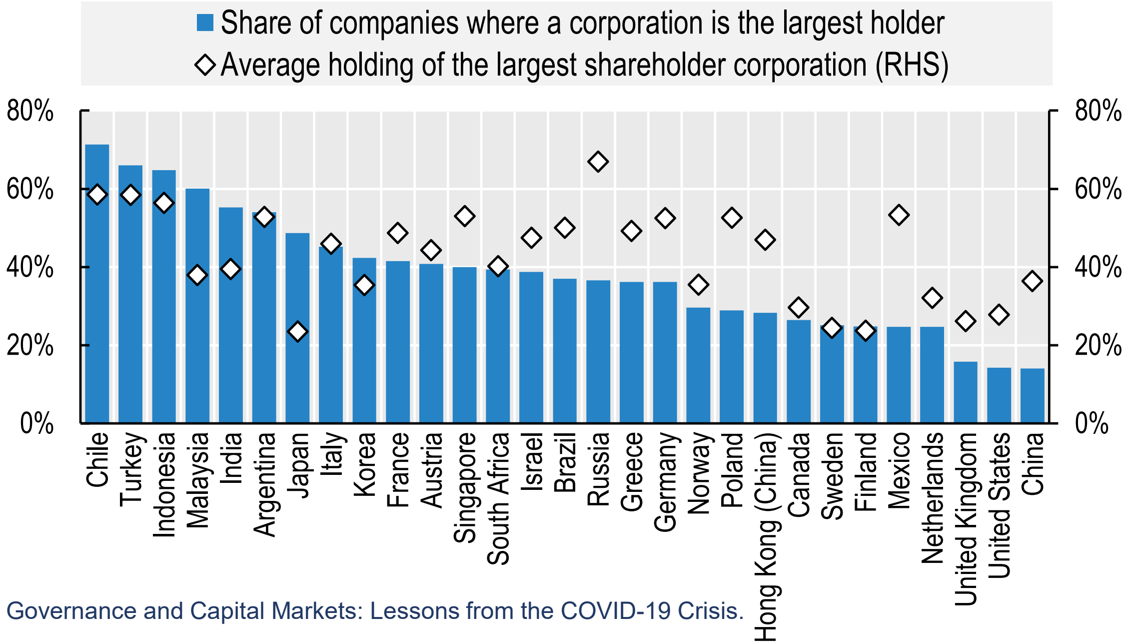
- An **overarching policy objective:** Facilitating access to equity capital for sound businesses. This will help strengthen the balance sheets of viable corporations and the emergence of **new business models**.
- A well-functioning public equity market also provides **ordinary households** with the opportunity to share in the return on capital, giving them additional options for managing savings and planning for retirement.
- New and innovative practices that help companies access to equity capital should be encouraged.

2. Adapting the corporate governance framework

Investors' holdings as of end-2020



Corporations as the largest shareholders in 2020



Source: Refinitiv; OECD (2021), The Future Role of Corporate Governance and Capital Markets: Lessons from the COVID-19 Crisis.

- Global increase in ownership concentration at the company level. In some markets, this is the result of dominance of **company group structures.** In several others, **the government has become an important owner** of listed companies. Both trends bring challenges with respect to governance practices.

- After the COVID-19 outbreak, there have been concerns that some companies have re-arranged the terms for **executive remuneration** by altering performance metrics and ignoring missed targets.

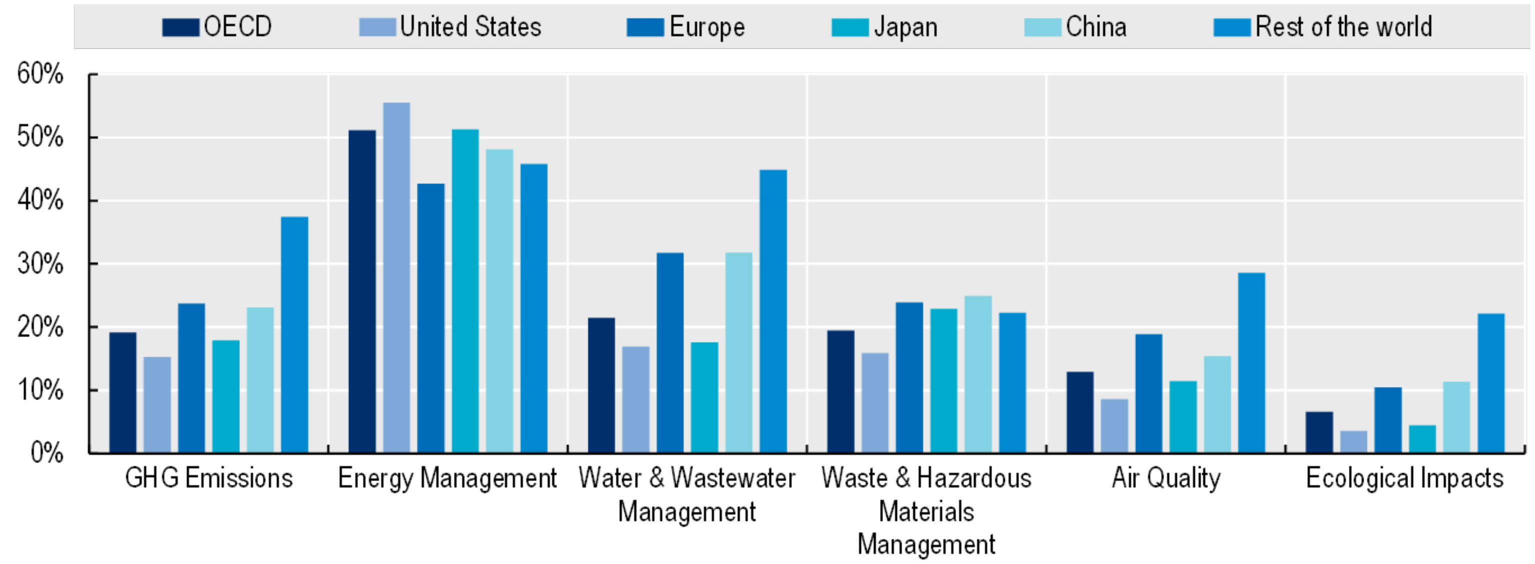
- Regarding the organisation of **annual shareholder meetings,** governments around the world have taken steps with respect to remote participation.

2. Adapting the corporate governance framework

- Experiences from the pandemic call for improvements in the frameworks for **risk and crisis management** (including health, supply chain, reputational and environmental risks). Issues related to **audit quality, stock price manipulation and insider trading have also come to the forefront**.
- In certain areas, the monitoring and disclosure of risks may be enhanced by the **use of new digital technology**.
- As a response to the increase in listed company group structures in several markets, special attention should be given to address **inadequacies in national disclosure frameworks** related to capital and control structures in company groups.
- Policy makers and regulators should ensure a **level playing field** with respect to the transparency and governance of state-controlled listed companies and their private investor-owned peers.
- Countries should benefit from experiences during the COVID-19 crisis in order to advance or clarify their regulatory frameworks for **remote participation in shareholder meetings**.
- To ensure the link between **executive remuneration** and **long-term corporate performance**, experiences call for **renewed scrutiny** of the conditions and procedures for deciding and overseeing performance-related pay.

3. Improving the management of environmental, social and governance risks

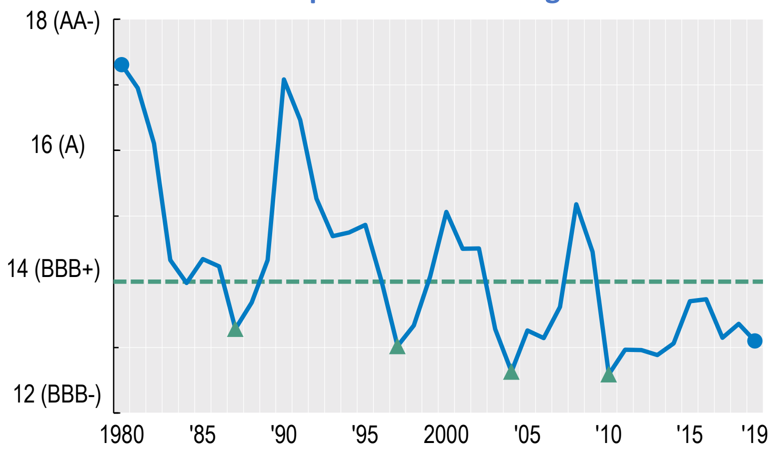
The share of market capitalisation by environmental risks in 2020

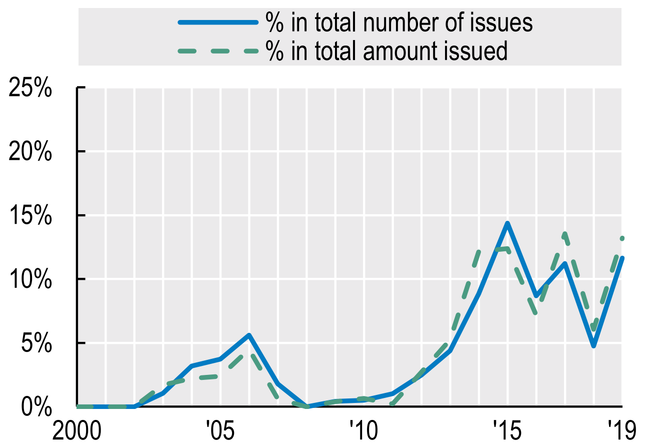


Source: OECD Capital Market Series Dataset, Refinitiv, SASB mapping.

- The COVID-19 pandemic has brought increased attention to the importance of identifying systemic risks and unexpected shocks.
- Focus on **climate change**: reduces the complexity of the discussion; a priority in many jurisdictions and timely for OECD leadership.
- Main topics: corporate **disclosure**; **shareholders**’ rights; the role of **boards**.
- Financial vs. Double Materiality

4. Addressing excessive risk taking in the non-financial corporate sector





Source: Refinitiv; OECD (2021), The Future Role of Corporate Governance and Capital Markets: Lessons from the COVID-19 Crisis.

- At the onset of the COVID-19 crisis, there were already widespread concerns about the **declining quality of the growing stock of outstanding corporate bonds**.
- Over the past three years, the share of BBB rated bonds – the lowest investment grade rating – reached 52% of all investment grade issuance, up from 39% during the 2000-2007 period.
- One particular cause for concern is the increase in **low-quality credit rating bonds used to finance corporate payouts.**
- The share of non-investment grade corporate bond offering documents that explicitly mention share buybacks or dividends among the intended uses has grown from 0% in 2000 to 13% in 2020.

4. Addressing excessive risk taking in the non-financial corporate sector

Increased use of bond financing has **highlighted the important role of corporate bonds in corporate governance** and the conditions (covenants) that bondholders may stipulate with respect to e.g. dividend payments, capital structure and disclosure.

- The regulatory framework should **require companies to disclose if they are at material risk of not meeting their bond covenants**, particularly in markets where the use of corporate bonds has only recently grown to be significant.

- Companies should also **disclose if their current financing arrangements include terms that would limit their ability to obtain additional funding**, as well as how these terms could influence the outcomes of workouts or lead to liquidity problems that would make them unable to maintain current operations.

- With regard to debt-financed buybacks, **the management and board are best placed to decide on the optimal capital financing structure**, subject to the approval of the shareholders. In doing so, however, they should **ensure that proper risk assessment procedures are in place** considering different scenarios, the best long-term interest of the company and its financial soundness.

5. Adapting the insolvency/restructuring framework for recovery and resilience

Given the severe economic consequences of the pandemic and the increase in insolvencies in industries such as air transport, hospitality, real estate and related sectors, it is crucial to **ensure sound governance of insolvency and restructuring processes** that allow for efficient and swift exits of non-viable companies and successful restructurings of viable ones.

- Policy makers and regulators should take the opportunity to **review the overall efficiency of their insolvency frameworks** and the extent to which **market-driven workouts** can serve as an effective practice to preserve, restructure and re-allocate productive capital.

- Considering that the portion of under-capitalised, non-viable firms will increase in the wake of the pandemic, temporary measures introduced should be re-visited to **ensure that resources are not tied up in systematically underperforming companies**.

Thank you for your attention!

Poll

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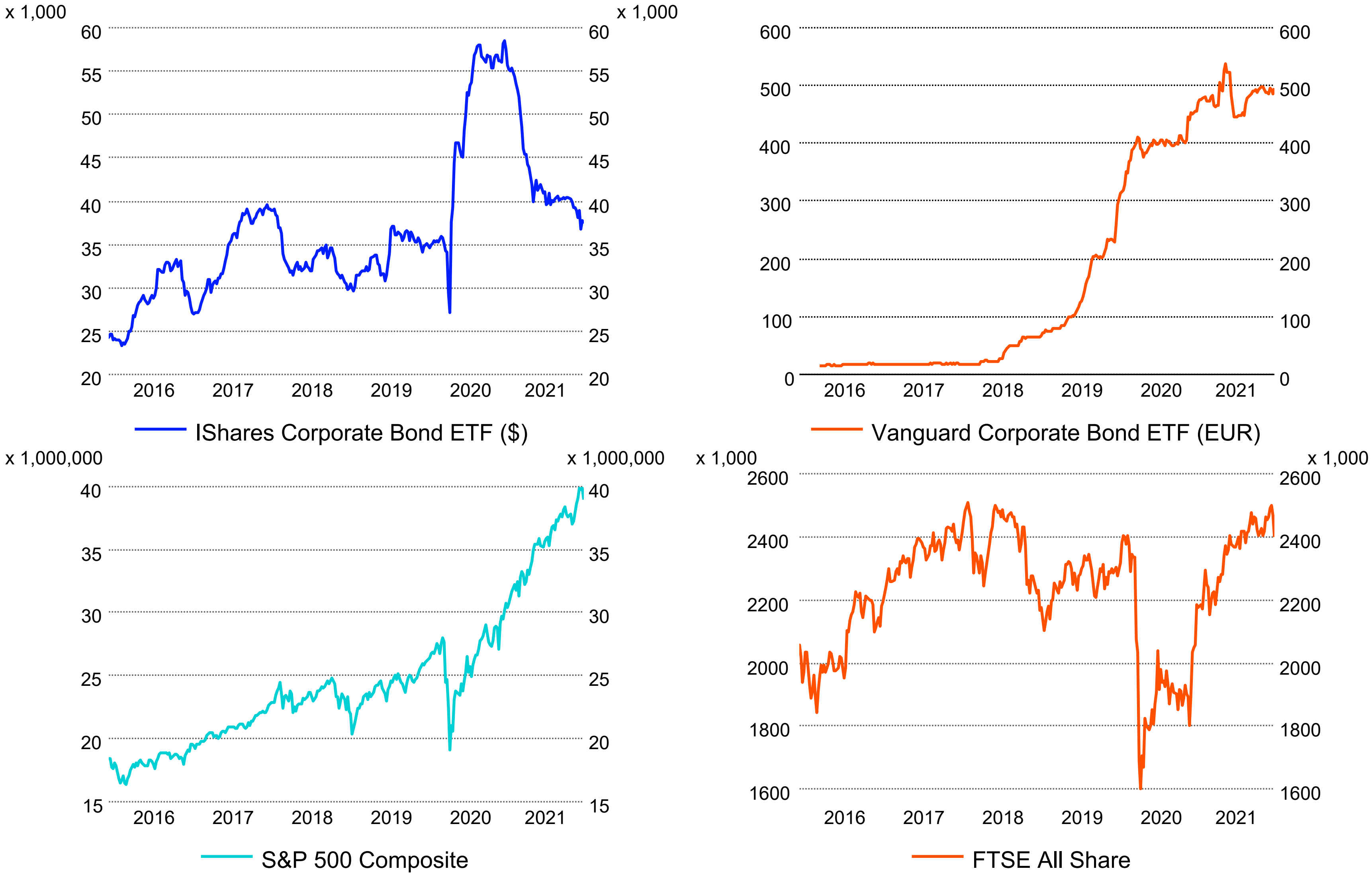
Corporate Bonds vs Equities

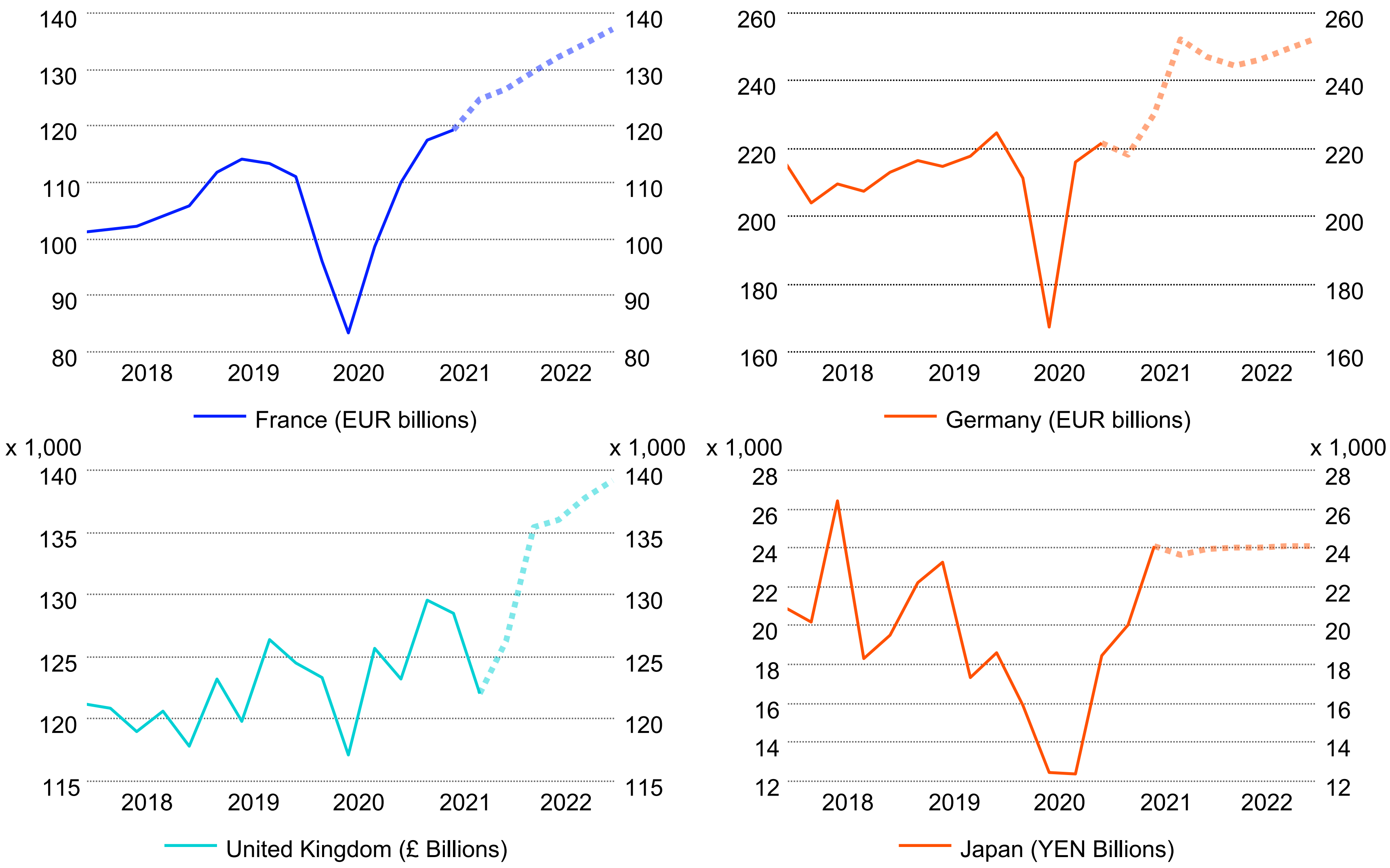
Market Value



Source: Refinitiv Datastream

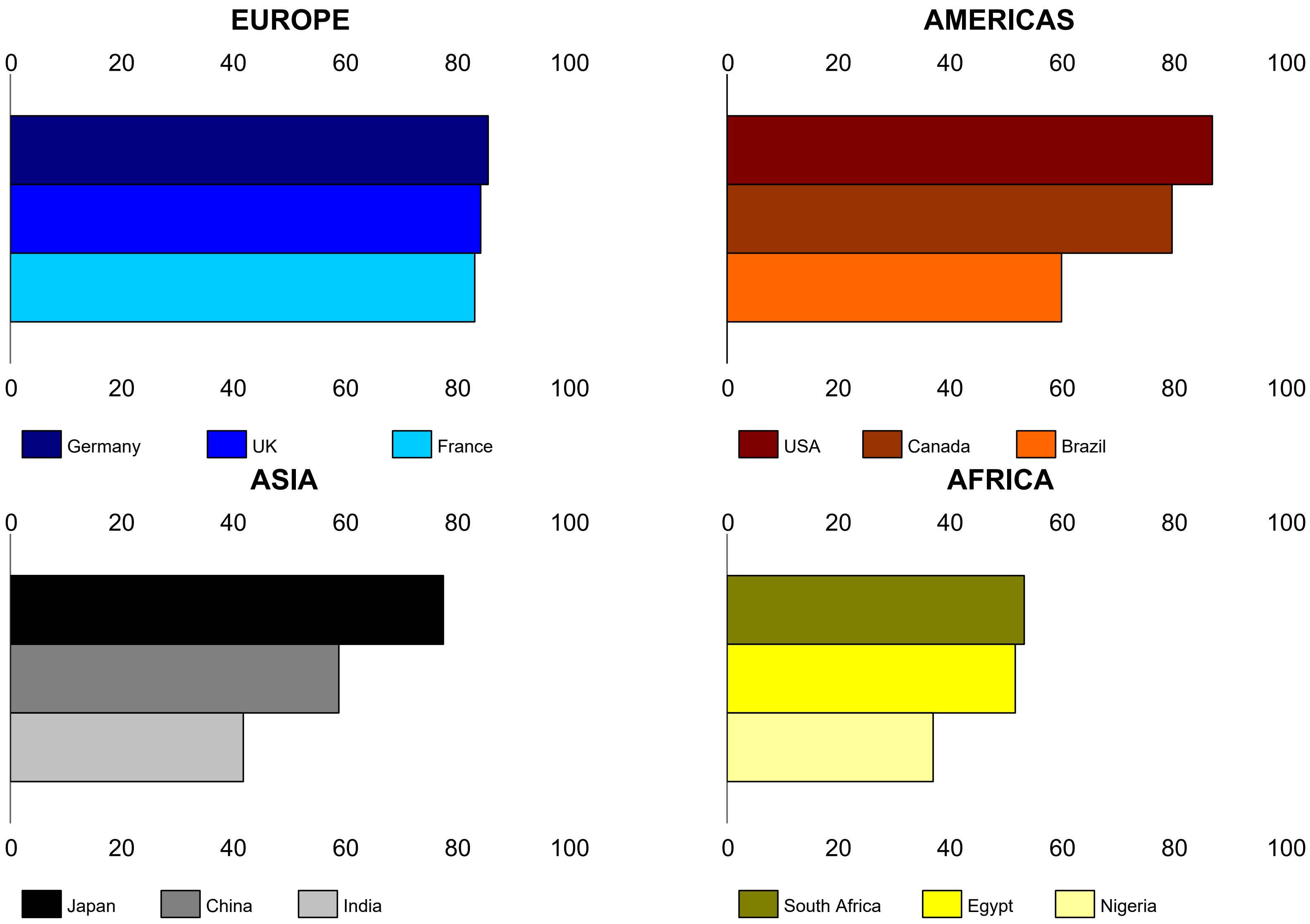
Aggregate Company Profits

Actual & Forecasted



Source: Refinitiv Datastream/ Oxford Economics

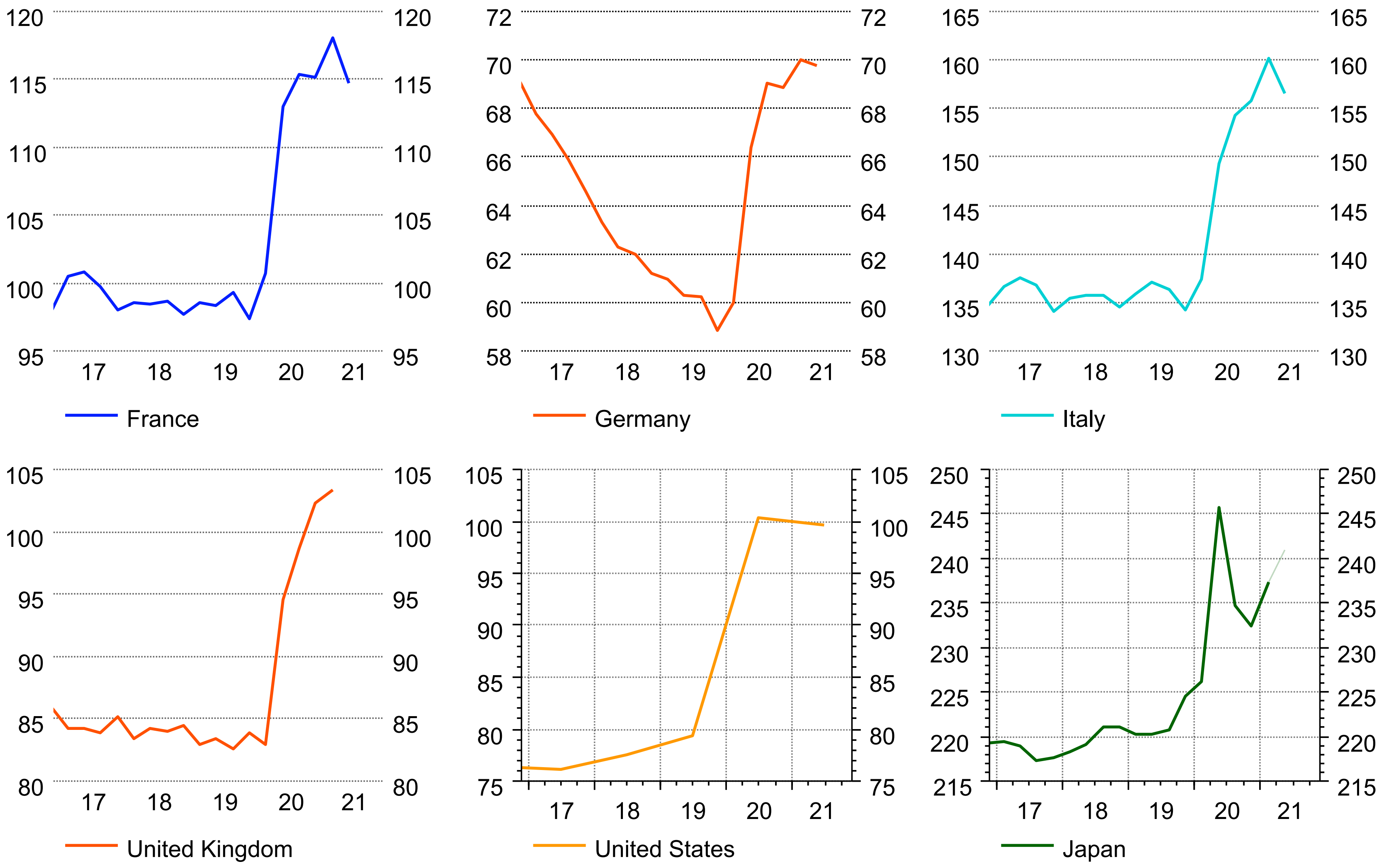
ESG Environmental Scores



Source: Refinitiv Datastream / Beyond Ratings

Government Debt

% of GDP



Source: Refinitiv Datastream

Refinitiv's ESG Content

Over 750k ESG time series available on Refinitiv Datastream

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Here are some examples of the content sets below…

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BP World Emissions

World Energy Trilemma Index

Global Green Economy Index

Notre D. Global Adaptation Index

SOCIAL

Legatum Prosperity Index

Global Hunger Index

Beyond Ratings

ACRe Data

GOVERNANCE

World Bank Doing Busines

Corruption Perceptions Index

Sustainable Governance Indicators

Fragile States Index

Q & A time!

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