



## CORPORATE GOVERNANCE IN CROATIA

# CORPORATE GOVERNANCE AND SUSTAINABILITY RECOMMENDATIONS LESSONS FROM THE REVIEW OF THE G20/OECD PRINCIPLES OF CORPORATE GOVERNANCE

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## OECD collaboration with Croatia

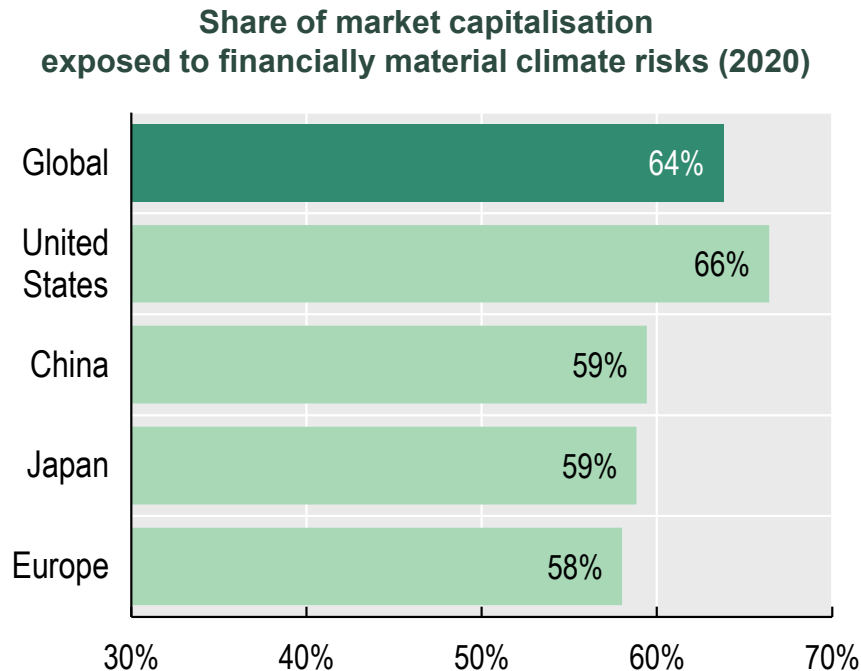
- ❖ *OECD Review of the Corporate Governance of State-Owned Enterprises*
- ❖ *OECD Capital Market Review of Croatia 2021: Capital market reforms for recovery and improved business dynamics in Croatia*
- ❖ OECD Accession Process of Croatia





## A snapshot of the climate challenge ahead

- ❖ Climate change is a significant financially material risk for companies representing **two-thirds of global market capitalisation**
- ❖ Limiting global temperature increases to 1.5 degrees above pre-industrial levels will require great effort



Source: OECD Capital Market Series Dataset, FactSet, Thomson Reuters Eikon, Bloomberg, SASB mapping.

### Actions required to reach net-zero in the global energy sector

Annual increase in solar photovoltaics and wind energy

**3X current level**

Fossil fuel consumption to decline by 2050

**80% → 20%**

Electric vehicles car sales to increase by 2030

**5% → 60%**

Source: IEA (2021) "Net Zero by 2050 A Roadmap for the Global Energy Sector"



## Corporate governance and sustainability - I

- ❖ Sustainability-related issues may **affect company operations** with respect to “standard” corporate governance issues
- ❖ As **new types of risks and issues** emerge and become relevant, it is important to ensure that these “standard procedures” remain fit for purpose

### Sustainability-related issues

Roles and duties of boards

Rights of shareholders

Role of stakeholders



## Corporate governance and sustainability - II

- ❖ **Capital markets** will play an important role in facilitating the transition to low-carbon economies
- ❖ Public resources alone will not be enough to cover the trillions of dollars needed to finance the climate transition – **private financing sources** such as institutional investors will also have a key role to play

**Good corporate governance frameworks**  
improve corporations' access to market-based financing

**Stronger balance sheets**

+

**New and innovative businesses**

that support the green and digital transitions essential for long-term resilience



## Perspectives from the review of the Principles – I

- ❖ The OECD Corporate Governance Committee showed a strong desire to see the revised Principles reflect **the growing challenges faced by corporations**
- ❖ The proposed revised G20/OECD Principles of Corporate Governance include a **new chapter on sustainability and resilience**

### Strategic priorities of the G20/OECD Principles

I

To promote access to finance, innovation and entrepreneurship

II

To provide a framework to protect investors

III

To support corporate sector sustainability and resilience



## Perspectives from the review of the Principles – II

### Sustainability disclosure

- ❖ With the proposed changes, the Principles promote:
  - Disclosure of **financial and non-financial sustainability** information
  - Use of **internationally accepted standards**
- ❖ Currently, **a wide range of ESG standards and frameworks** are being used by companies
- ❖ ISSB aims at developing **global standards** on sustainability disclosure:
  - “building blocks” approach
  - an initial priority on climate-related matters



## Perspectives from the review of the Principles – III

### Sustainability disclosure

- ❖ Another important challenge is **the concept of materiality**
  - Most existing sustainability standards are based on “financial materiality”
  - EU follows the concept of “double materiality”
  - The frontiers between the two concepts may be rather fluid in practice

#### Financial materiality

Information is considered material if it could reasonably be expected to influence an **investor’s analysis** of a company’s future cash flows.

#### Double materiality

Information is considered material, in addition to being financially relevant to investors, if it would be **pertinent to multiple stakeholders’** understanding of a company’s effect on its environment.





## Perspectives from the review of the Principles – IV

### Responsibilities of boards and other issues

- ❖ Promotion of **dialogue between directors, key executives, shareholders and stakeholders** on sustainability matters is essential
- ❖ Dialogue may be useful for a range of issues, including:
  - Informing management’s decision-making process
  - Building investors’ trust in a long-term business strategy
- ❖ Material sustainability risks and opportunities must be **considered by the board**
- ❖ Boards’ assessment of sustainability matters may also relate to:
  - Key executive remuneration and nomination
  - Potential board committees for sustainability matters
- ❖ **Business judgement rule**



## Perspectives from the review of the Principles – V

### The G20/OECD Principles of Corporate Governance

Corporate governance has an important role to play when it comes to sustainability



- ❖ The Principles allow for a **global approach to a global problem**
- ❖ **With 53 adherents**, the Principles provide a unique opportunity to coordinate corporate governance related efforts in a truly **international forum**



*Thank you for your attention*