Principles for Responsible Investment

PRI RESPONSE

REVIEW OF THE G20/OECD PRINCIPLES OF CORPORATE GOVERNANCE

21 October 2022

The information contained in this briefing is provided for informational purposes only and should not be construed as legal advice on any subject matter. Except where expressly stated otherwise, the opinions, recommendations, findings, interpretations and conclusions expressed in this report are those of PRI Association, and do not necessarily represent the views of the contributors to the briefing or any signatories to the Principles for Responsible Investment (individually or as a whole).

PRI Association
Registered office: 25 Camperdown Street
London, UK, E1 8DZ Company no. 7207947
T: +44 (0) 20 3714 3220 W: www.unpri.org E:info@unpri.org

UN environment programme | finance initiative
United Nations Global Compact
An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

INTRODUCTION

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the OECD Corporate Governance Committee's call for feedback on revisions to the G20/OECD Principles of Corporate Governance.

ABOUT THIS CONSULTATION

The OECD Corporate Governance Committee is conducting a public consultation on revisions to the G20/OECD Principles of Corporate Governance. The overall objective of the review is to update the Principles in light of recent evolutions in capital markets and corporate governance policies and practices. OECD and G20 countries have identified a range of priority areas to take into consideration during the review, including the management of environmental, social and governance risks; digitalisation; changes in corporate ownership and concentration; and the role of institutional investors and stewardship, among others. An important overarching aim of the revision is to support strengthened corporate sector resilience and to improve companies' access to finance from capital markets.

For more information, contact:

Margarita Pirovska	Hazell Ransome
Director of Policy	Senior Policy Analyst
Margarita.Pirovska@unpri.org	Hazell.Ransome@unpri.org

KEY RECOMMENDATIONS

PRI welcomes many aspects of the reviewed Principles, including the explicit references to whistleblowing mechanisms, diversity, the use of sustainability indicators in executive remuneration, and governance structures that support corporate management of sustainability issues, such as sustainability committees. We also support the enhanced requirements around the independence of directors on the board, the clarification that it is the responsibility of the board to establish a whistleblowing policy, and the heightened attention given to stewardship and investor collaboration.

The PRI's key recommendations are:

Executive remuneration

- **Specify the need for comprehensive and detailed disclosures of linkages between executive compensation and ESG factors.** This is important for investors to ensure the integrity of compensation and reduce risks of pay padding, backward looking performance targets and other potential unintended consequences.

Whistleblowing

- **Ensure boards not only establish a whistleblowing policy, but clearly understand the steps taken to resolve issues raised through whistleblowing mechanisms and communicate how information received is integrated into the company's risk management strategy.**

The Responsibilities of the board

- **Re-affirm that corporate boards should have the necessary skills and experience to develop sustainability strategies and ensure appropriate oversight and response to sustainability risks and opportunities.** This will better equip companies to manage sustainability-related matters in their own operations as well as value chains and maximise environmental, social, and economic performance. This will also enable strong and constructive engagement with institutional investors that integrate these factors in their investment decision-making.
- **Encourage companies to report on how they plan to increase the board composition to a majority of independent directors over time.** To facilitate this transition, companies should develop and disclose clear criteria on board appointments and succession planning, including rationale for specific board appointments (highlighting skills, knowledge, contribution to diversity and experience).

Diversity, equity and inclusion

- **Improve the recommendations around inclusion and consider characteristics as well as gender.**

Stewardship

- **Set out other tools, in addition to stewardship codes, that will enable policymakers to embed stewardship into regulatory frameworks.** Gradually raising the floor for stewardship practices established by regulation, while ensuring the code or other voluntary standards recognises best-in-class practices, will be key to driving long-term improvements in investor stewardship.

Investor collaboration

- **Encourage policymakers to clarify what forms of collaboration are permitted under competition law.** Many companies and their investors are vulnerable to systemic issues which can only be solved through collective action. The Principles could encourage the adoption of prima facie legal presumptions in favour of cooperation or safe harbour clauses, specifying that certain activities would be deemed allowable provided their objectives are related to advancing sustainability practices or addressing systemic issues.

Sustainability Reporting

- **Harmonise the definition of materiality with the ISSB's definition[1] (once the finalised IFRS Sustainability Disclosure Standards are published) *while also* capturing information on a company's sustainability performance and their alignment with long-term sustainability goals and thresholds.** This would promote interoperability of jurisdictional disclosure frameworks and, by going beyond the IFRS definition, better reflect the reality that investors need information on enterprise value, but also increasingly need information to assess and interpret a company's sustainability performance and alignment with sustainability outcomes. The OECD should refer to both topics as 'materiality', clearly distinguishing financial and impact but capturing both.
- **Replace the term "non-financial information" with "sustainability information" throughout the document.** Sustainability information can be directly related to financials (e.g. information on sustainability-related expenditure, carbon prices, expected financial impact and assets / turnover exposed to sustainability-related risks or opportunities).
- **Avoid presenting sustainability reporting as a "trade off" for companies.** The Principles should focus on the fiduciary duty of the company director with respect to the financial performance of the entity (already covered), *and* sustainability performance and outcome information which would also be highly relevant to directors undertaking their duties outside of the (direct) consequences on financial performance.
- **Align definitions of 'comparable', 'consistent' and 'verifiability' with the ISSB.**
- **Clarify the need for robust internal controls applicable across financial and sustainability reporting and the need for connectivity of reporting.** The connectivity recommendation should also be expanded. PRI recommends the OECD refer to the connectivity requirements and guidance under paragraphs 42-44 of the Exposure Draft IFRS S1.

[1] The definition used (albeit subject to potential changes in the final standards) is: "Information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'."

DETAILED RESPONSE

For each part below, the relevant section/paragraph of the reviewed Principles is quoted in a blue box for ease of reference.

EXECUTIVE REMUNERATION

Section IV.A.5. [Financial and non-financial disclosure should include, but not be limited to, material information on:] Remuneration of members of the board and key executives page. 30: *"Of particular interest is the link between remuneration and long-term company performance. Companies are generally expected to disclose information on the remuneration policies applied to ~~of~~ board members and key executives as well as remuneration levels or amounts, so that investors can assess the costs and benefits of remuneration plans and the contribution of incentive schemes, such as stock option schemes, to company performance, including resilience and sustainability. […] The use of sustainability indicators in executive remuneration may also warrant disclosure that allows investors to assess whether indicators are linked to material sustainability risks and incentivise a long-term view."*

Section V.D.5. [The board should fulfil certain key functions, including] Aligning key executive and board remuneration with the longer-term interests of the company and its shareholders page 38: "*The design of remuneration policies and contracts for board members and key executives is critical to set incentives that are aligned with a company's business strategy. These policies, however, may not fulfil their goal if they are frequently adjusted in the absence of a significant change in the business strategy or a structural transformation of the context in which the company operates. Specifically, the likelihood of an economic downturn is a factor that corporate officers reasonably can consider when accepting their remuneration package and may not immediately justify an adjustment of the terms for their remuneration."*

The PRI welcomes the explicit reference in the Principles to the use of sustainability indicators in executive remuneration. Linking ESG performance to pay can help hold executive management to account for the delivery of sustainable business goals. Executive remuneration should also be aligned with corporate strategy and performance to drive value creation. Relevant ESG factors should be selected based on a nuanced understanding of what impacts the financial or the operating performance of a company and how an entity's operations and products impact stakeholders and the environment, in the context of broader societal goals and planetary boundaries[2].

The PRI has long called for better reporting by companies on ESG targets, performance against those targets and actual impact on pay[3]. Comprehensive and detailed disclosures of linkages between executive compensation and ESG factors are important for investors to ensure the integrity of compensation and reduce risks of pay padding, backward looking performance targets and other potential unintended consequences.

In order to prevent the abuse of ESG-linked pay, investors also have a role in holding issuers accountable, ensuring that selected ESG factors genuinely stimulate systematic progress towards sustainability ambitions, and do not reward executives for business as usual (e.g. maintaining compliance with laws and regulations) or for improving perceptions regarding sustainability performance (e.g. by tying pay to inclusion in sustainability indices, which are rarely specific to companies' ESG performance).

---

[2] PRI (2021), ESG-linked pay: Recommendations for investors.
[3] PRI (2012), Integrating ESG issues into executive pay.

WHISTLEBLOWING

Section II.G. Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress. Abusive self-dealing should be prohibited, page 22: "*~~Some~~ Most regulators have established mechanisms to receive and investigate complaints ~~facilities~~ from shareholders, and some have the possibility to support lawsuits through disclosure of relevant information (including whistleblowing mechanisms) and/or funding.*

Section V.D.7. [The board should fulfil certain key functions, including] Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions, page 39: "*In fulfilling its control oversight responsibilities, it is important for the board to establish a whistleblowing policy in order to encourage the reporting of unethical/unlawful behaviour without fear of retribution*."

Section VI.D.5. Stakeholders, including individual employees and their representative bodies, should be able to freely communicate their concerns about illegal or unethical practices to the board and to the competent public authorities, and their rights should not be compromised for doing this page 49: "*It is therefore ~~[…]~~ important for companies to establish a whistleblowing policy with procedures and safe harbours for complaints by employees, either personally or through their representative bodies, and others outside the company, concerning illegal and unethical behaviour."*

The PRI welcomes the explicit reference in the Principles to whistleblowing mechanisms. Our 2020 report, "*Whistleblowing: Why and how to engage with your investee companies*", highlights that effective whistleblowing mechanisms are a key feature of good governance and anti-corruption systems, as well as being reflective of a healthy corporate culture centred on trust and responsiveness. Whistleblowing mechanisms can help support companies to mitigate the risks associated with unethical or illegal conduct, which if left unchallenged can lead to significant corporate failures and loss of value. They can also help address systemic issues, including detecting and preventing bribery and corruption and bringing to light significant cases of tax avoidance, money laundering and human rights violations.

We also support the recommendation that it is responsibility of the board to establish a whistleblowing policy. As evidenced in PRI's report, company boards have a crucial role in creating speak-up cultures; boards should clearly understand the steps taken to resolve issues raised through whistleblowing mechanisms and communicate how information received is integrated into the company's risk management strategy.

THE RESPONSIBILITIES OF THE BOARD

Section V.A. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders, taking into account the interests of stakeholders.

Section V.D.2. [The board should fulfil certain key functions, including] Reviewing and assessing risk management policies and procedures.

Section V.E. The board should be able to exercise objective independent judgement on corporate affairs, page 40: "*The designation of a lead director who is independent of management is also regarded as a good practice alternative in some jurisdictions if that role is defined with sufficient authority to lead the board in cases where management has clear conflicts. Such mechanisms can also help to ensure high quality governance of the ~~enterprise~~ company and the effective functioning of the board. […] While national approaches to defining independence vary, typical criteria include the absence of relationships with the company, its group and its management, the external auditor of the company and substantial shareholders, as well as the absence of remuneration, directly or indirectly, from the company or its group other than directorship fees. The board may also be required to make an affirmative finding that a director is independent of the listed company because they have no material relationship with the listed company or that the director has no relationship which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Many countries also set a maximum tenure for directors to be considered independent. It may also be considered good practice to limit the number of boards on which a director may serve.*"

Section V.E.2. Boards should consider setting up specialised committees to support the full board in performing its functions, in particular ~~[…]~~ the audit committee – or equivalent body – for overseeing disclosure, internal controls and audit-related matters. Other committees, such as remuneration, nomination or risk management, may provide support to the board, ~~[…]~~ depending upon the company's size, structure, complexity and risk profile. ~~[…]~~ Their mandate, composition and working procedures should be well defined and disclosed by the board which retains full responsibility for the decisions taken, page 42: "*Other committees may be established to advise the board on additional issues. Some boards have created a sustainability committee to analyse in particular climate-related risks.*"

The PRI welcomes the reference in the Principles to governance structures that support corporate management of sustainability issues, such as a sustainability committee. Corporate boards should have the necessary skills and experience to develop sustainability strategies and ensure appropriate oversight and response to sustainability risks and opportunities. To meet this aspect, companies could establish a board committee with a focus on sustainability or incorporate sustainability into the mandate of an existing board committee.

With robust oversight and leadership on sustainability, companies will be better equipped to manage sustainability-related matters in their own operations as well as value chains and maximise environmental, social, and economic performance. This will also enable strong and constructive engagement with institutional investors that integrate these factors in their investment decision-making.

The PRI also welcomes the enhanced requirements around the independence of directors on the board. Given this is one of the most crucial aspects of good corporate governance, we recommend that companies further report on how they plan to increase the board composition to a majority of independent directors over time. To facilitate this transition, companies should develop and disclose clear criteria on board appointments and succession planning, including rationale for specific board appointments (highlighting skills, knowledge, contribution to diversity and experience). This process should be led by a nominations committee consisting of majority of independent directors at all companies.

DIVERSITY, EQUITY AND INCLUSION

Section IV.A.6 [Financial and non-financial disclosure should include, but not be limited to, material information on] Information about board members, including their qualifications, the selection process, <u>their composition</u>, other company directorships and whether they are regarded as independent by the board.

Sections V.D.4 & V.D.6 [The board should fulfil certain key functions, including] Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning & Ensuring a formal and transparent board nomination and election process

Section V.E.4 Boards should regularly carry out evaluations to appraise their performance and assess whether they possess the right mix of background and competences, <u>including with respect to gender and other forms of diversity.</u>

Diversity and inclusion on corporate boards and throughout an organization are material to company success and, as such, represent decision-useful information for investors. The inclusion of diversity across the different Principles (via increased disclosure and mandatory minimum standards for board diversity) would help bring diverse perspectives to company leadership and provide investors with necessary data to consider the risks and opportunities associated with board diversity.

We recommend the Principles go a step further by improving recommendations around inclusion, which is key to ensure different groups in society can access positions with decision-making power. Focus should also be given to characteristics beyond gender as gender diversity does not necessarily lead to other types of diversity.

STEWARDSHIP

Section III.A. <u>The corporate governance framework should facilitate and support engagement by institutional investors with their investee companies.</u> Institutional investors acting in a fiduciary capacity should disclose their <u>policies for</u> corporate governance and voting ~~policies~~ with respect to their investments, including the procedures that they have in place for deciding on the use of their voting rights. <u>Stewardship codes may offer a complementary mechanism to support such engagement.</u>

Section VI.D.6. <u>The exercise of the rights of bondholders of publicly traded companies should be facilitated</u>, page 49: "*<u>Corporate governance frameworks can, however, spur investors to be more active as creditors, such as recommending in a stewardship code that signatories can actively exercise their rights with respect to corporate bonds".</u>*

The PRI welcomes the heightened attention given to stewardship in the updated Principles and its role in driving sustainability improvements.

The PRI recommends the Principles sets out other tools, in addition to stewardship codes, that will enable policymakers to embed stewardship into regulatory frameworks. While stewardship codes remain the most common way in which policymakers have attempted to incentivise investor stewardship, many markets have – in addition or instead – sought to set stewardship expectations via mandatory regulations or clarifications of investor duties.

Gradually raising the floor for stewardship practices established by regulation, while ensuring the code or other voluntary standards recognises best-in-class practices, will be key to driving long-term improvements in investor stewardship. For markets where stewardship codes have been adopted, there is generally interaction between the code and broader investor regulations so as to give clear guidance for investors of how to fulfil their stewardship responsibilities under the code and investor duties specified elsewhere.

INVESTOR COLLABORATION

Section II.D. Shareholders, including institutional shareholders, should be allowed to consult with each other on issues concerning their basic shareholder rights as defined in the Principles, subject to exceptions to prevent abuse.

Section II.D acknowledges the key role that investor collaboration can play in addressing corporate governance issues and other concerns. A current barrier to effective collaboration in many jurisdictions is that competition law often falls short of providing investors with the certainty they need to confidently pursue sustainability-related objectives through collaboration.

While the Principles describes the risks associated with unregulated collaboration, the PRI recommends they encourage policymakers to clarify what forms of collaboration are permitted under competition law.

Many companies and their investors are vulnerable to systemic issues which can only be solved through collective action. The Principles could encourage the adoption of prima facie legal presumptions in favour of cooperation or safe harbour clauses, specifying that certain activities would be deemed allowable provided their objectives are related to advancing sustainability practices or addressing systemic issues.

SUSTAINABILITY DISCLOSURE

Section IV. Disclosure and transparency, page 28: "*Material information can be defined as information whose omission or misstatement ~~could~~ can reasonably be expected to influence ~~the economic decisions taken by users of information~~ an investor's assessment of a company's value. This would typically include the value, timing and certainty of a company's future cash flows. Material information can also be defined as information that a reasonable investor would consider important in making an investment or voting decision".*

This definition should be harmonised with the ISSB's definition of materiality[4], once the finalised IFRS Sustainability Disclosure Standards are published, *while also* capturing information on a company's sustainability performance (i.e., how an investee's operations and products positively or negatively affect people and the environment) and their alignment with long-term sustainability goals and thresholds. As a first step, the final two sentences of this quote should be deleted.

Aligning the definition with that of IFRS Sustainability Disclosure Standards would promote interoperability of jurisdictional disclosure frameworks. And then going beyond this in the way PRI has suggested, would better reflect the reality that investors not only need information on enterprise value, but also increasingly need information to assess and interpret a company's sustainability performance and alignment with sustainability outcomes. Focusing the definition of materiality on enterprise value alone will not serve the needs of all investors.

This updated definition should be reflected throughout the whole document, including in Section VI.A.1 on page 45.

Section IV. Disclosure and transparency, page 28: *"Shareholders and potential investors require access to regular, reliable and comparable information in sufficient detail for them to assess the stewardship of management, and make informed decisions about the valuation, ownership and voting of shares."*

PRI recommends the OECD adds that this is also required "to inform reporting requirements", as that is part of investors' decision-making and won't always fit into decisions on valuation, ownership and voting shares. Furthermore, the OECD could delete "to assess the stewardship of management, and" since this is already covered in making "informed decisions about the valuation, ownership and voting of shares".

[4] The definition used (albeit subject to potential changes in the final standards) is: "*Information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'."*

Section IV.A.8. Foreseeable risk factors, page 32: *"Users of financial information and market participants need information on reasonably foreseeable material risks that may include: risks that are specific to the industry or the geographical areas in which the company operates; dependence on commodities and value chains; financial market risks including interest rate or currency risk; risks related to derivatives and off-balance sheet transactions; business conduct risks; digital security risks; and sustainability risks, notably climate-related risks ~~related to the environment~~."*

The OECD should not single out climate-related risks, but instead focus on all sustainability risks - particularly given its mandate to look at financial stability risk and impacts related to people and planet. PRI also recommends the OECD to add the risk from changes in demand/preferences for consumers or end users.

Section IV.B. Information should be prepared and disclosed in accordance with high quality accounting and disclosure standards, page 33: *"The application of high quality accounting and disclosure standards is expected to significantly improve the ability of investors to monitor the company by providing increased relevance, reliability and comparability of reporting, and improved insight into company performance and risks […] Disclosure of non-financial information should also be understandable, enforceable and consistent and compatible with high quality disclosure standards."*

The PRI cautions the OECD against using the term "high quality disclosure standards" as this is a subjective measure. Instead, we recommend using "internationally recognised disclosure standards". Furthermore, the OECD should replace the term "non-financial information" with "sustainability information" throughout the document. Sustainability information can be directly related to financials (e.g. information on sustainability-related expenditure, carbon prices, expected financial impact and assets / turnover exposed to sustainability-related risks or opportunities).

Similarly, "non-financial metrics", mentioned on page 45, should be called "sustainability information", because in addition to the point above, this could refer to qualitative or binary data (i.e. not necessarily metrics).

Section VI. Sustainability and resilience, page 45: *"On the other hand, an opposite approach also presents risks. If directors in all companies are required to equally balance shareholders' financial interests with the interests of all stakeholders and, in addition, to fulfil a number of specific public interest missions, the corporate sector could become less efficient in allocating resources. To guide corporate activities, policies that make companies internalise environmental and social externalities as well as set predictable boundaries within which directors have to exercise their fiduciary duties are relevant. These policies could relate to, for instance, environmental regulation, or directly investing in or incentivising research and development of technologies that may contribute to addressing major environmental challenges."*

This document risks presenting sustainability reporting as a trade-off for companies. This would ignore the fact that:

- sustainability issues may influence a company's financial performance and value over the short, medium and long- term; and
- company impacts on key economic, environmental and social systems may have financial implications for a company, sector or portfolio.

Therefore, PRI recommends the OECD delete the first two sentences from the quote above and replace this with a discussion that there are a number of factors that directors would have to consider, including the financial performance of their business; the consequences of their sustainability performance of their business; the consequences of their sustainability performance on their short, medium and long-term financial performance; and the feedback loop of these sustainability-related risks and opportunities.

More generally, the OECD should adjust this section to focus on the fiduciary duty of the company director with respect to the financial performance of the entity (already covered), *and* sustainability performance and outcome information. The latter would also be highly relevant to directors undertaking their duties outside of the (direct) consequences on financial performance, whether that is because of the company's commitments (e.g. on net zero) or the data needs of their investors, which could be enforced through stewardship (all the way up to shareholder resolutions).

Section VI.A. "Sustainability disclosure should be consistent, comparable and reliable, and include retrospective and forward-looking material information that a reasonable investor would consider important in making an investment or voting decision", page 45

The whole document uses the terms 'consistent' and 'comparable' interchangeably. This is incompatible with Exposure Draft IFRS S1 on general sustainability reporting, which defines these differently (cf. pages 45-46). PRI recommends the OECD define 'comparable' and 'consistent' in line with the ISSB's definitions and use only one of these characteristics throughout the document - preferably 'consistent' to improve the comparability of reporting for investors.

Similarly, the document uses the terms 'reliability' and 'verifiability' interchangeably. It should only use 'verifiability' in line with, and using the same definition as, Exposure Draft IFRS S1.

Section VI.A. Sustainability disclosure should be consistent, comparable and reliable, and include retrospective and forward-looking material information that a reasonable investor would consider important in making an investment or voting decision, page 45: "*In jurisdictions that allow or require the consideration of stakeholder interests, disclosures may benefit such stakeholders."*

To avoid confusion and ensure that relevant information is reported, PRI recommends editing this sentence so that stakeholder interests, *as well as environmental impacts*, are reported where *the legal framework allows for this and where material in line with the definition of 'materiality'* provided in this document. In addition, 'disclosures may benefit' is overly vague and should be clarified.

Section VI.A. Sustainability disclosure should be consistent, comparable and reliable, and include retrospective and forward-looking material information that a reasonable investor would consider important in making an investment or voting decision, page 45: "*With these challenges in mind, policy makers may need to devise sustainability disclosure requirements that are flexible with respect to the size of the company and its stage of development.*

PRI supports the need to consider size of companies, as this is important for scalability. We recommend that the OECD clarify that "stage of development" refers to whether companies are public or private, such that policymakers do not misinterpret this concept as referring to other less relevant characteristics.

Section VI.A.1. "Sustainability information should be considered material if it can reasonably be expected to influence an investor's assessment of a company's value. If consistent with a jurisdiction's legal and disclosure requirements, such assessments may also consider sustainability matters that are critical to a company's key stakeholders or a company's influence on non-diversifiable risks", page 45

In addition to our recommendation above regarding the definition of materiality, the information outlined in the following paragraphs of this section (on enterprise value and impacts) should be an example of material information but should not replace the definition of materiality we have proposed. Further, we suggest clarifying the term "non-diversifiable risks" used at the end of this section. The PRI would use the phrase "systematic risks" in the context of investment portfolios to describe market-wide risks which one cannot diversify away from.

Section VI.A.1. Sustainability information should be considered material if it can reasonably be expected to influence an investor's assessment of a company's value. If consistent with a jurisdiction's legal and disclosure requirements, such assessments may also consider sustainability matters that are critical to a company's key stakeholders or a company's influence on non-diversifiable risks, page 45: *"This assessment typically includes the value, timing and certainty of a company's future cash flows over the short and long term.*

Material sustainability information includes environmental and social issues that can reasonably be expected to affect a company's asset value and its ability to generate revenues, such as the physical impact of climate change. However, a company's own impact on society and the environment could also be considered material if it is expected to affect the company's value, such as environmental liabilities under a jurisdiction's existing laws or regulations, or greenhouse gas (GHG) emissions that may be capped or taxed in the future. Likewise, human rights and human capital policies, such as training programmes, retention policies, employee share ownership plans, and diversity strategies, can communicate important information on the competitive strengths of companies to market participants."

Firstly, in the first sentence, the OECD should also reference the medium term. For the remaining text of the quote, PRI recommends harmonising the wording with the definition of sustainability-related financial information within Exposure Draft IFRS S1 on general sustainability reporting (cf. paragraph 6). This would improve consistency with international standards, and therefore better meet the OECD's own recommendation in the next sub-section (VI.A.2). PRI also stresses the importance for this text to end with a statement that policymakers could look beyond financial performance, to also consider companies' sustainability performance and alignment with sustainability outcomes.

Overall, in addition to the points made in previous paragraphs, there is ambiguity with how materiality is described in the draft revised Principles. There are references to what is commonly known as the 'single' and 'double' materiality lenses throughout, but this quoted paragraph implies that 'materiality' refers to financial materiality only while the assessment of 'relevance' (see the following paragraph that leads into page 46) covers impact materiality as well. This text should be harmonised and clarified by referring to both topics as 'materiality', clearly distinguishing financial and impact but capturing both.

Section VI.A.1. Sustainability information should be considered material if it can reasonably be expected to influence an investor's assessment of a company's value. If consistent with a jurisdiction's legal and disclosure requirements, such assessments may also consider sustainability matters that are critical to a company's key stakeholders or a company's influence on non-diversifiable risks, page 46: *"Consequently, some jurisdictions require or recommend disclosing sustainability matters critical to a company's key stakeholders or a company's influence on non-diversifiable risks."*

The paragraph which contains this quote states that these risks are jurisdiction-specific and implies a reliance on the jurisdiction's legal and disclosure requirements. While this may the case for some issues, climate change would be a clear example of a global issue with risks that would not simply depend on the jurisdiction regulatory/reporting environment. This should be clarified in the text.

Section VI.A.3. Governance over and disclosure of sustainability matters, financial reporting and other corporate information should be connected.

This whole section is conflating two recommendations that should be separate to avoid confusion:

(i) The need for robust internal controls applicable across financial and sustainability reporting.
(ii) The need for connectivity of reporting.

In addition, the connectivity recommendation should be expanded. For sustainability reporting to be decision-useful, companies should ensure that:

- Connections between sustainability-related risks and opportunities and information in general purpose financial reporting (including the financial statements) are explained.
- Disclosures on multiple sustainability-related risks and opportunities are connected where appropriate (through reporting on trade-offs and/or aggregation of multiple issues).

PRI recommends the OECD refer to the connectivity requirements and guidance under paragraphs 42-44 of the Exposure Draft IFRS S1 in this section.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of the OECD Corporate Governance Committee further to global corporate governance practices.

Please send any questions or comments to policy@unpri.org.

More information on www.unpri.org