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MO/KV

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Dear Mr. Johnston,

### **Draft revised Principles of Corporate Governance**

Further to our discussion in Davos, I am writing to share some concerns with respect to the "Draft revised Principles of Corporate Governance". We are aware that several Global Union Federations have also forwarded their concerns. Our views are in support of these other comments and, in particular, we fully support the comments raised by TUAC.

The ICFTU has 233 affiliated organisations in 152 countries and territories, representing a total of over 150 million members. Most of the national trade union organisations, both inside and outside the OECD area belong to the ICFTU.

As has been the case with a number of documents adopted and decisions taken by the OECD in the past, we believe that this document too has the potential to become very important for countries outside of the OECD area. Within the scope of the 12 core standards of the Financial Stability Forum, the World Bank and the IMF use monitoring of the OECD Principles as an element guiding their lending decisions. As such, the Principles are increasingly regarded as a "soft" conditionality. This implies that the revised text should also be looked at from a non-OECD country perspective. The current text lacks precision and focus to be as valuable as it might be.

In view of this, we feel that the draft revised text does not sufficiently reflect the needs of developing countries. As the OECD principles will, in all likelihood, influence the debate for OECD and non-OECD countries alike, the ICFTU's affiliates from developing countries are among those that would like to see a deeper and stronger set of Principles. The corporate governance framework should be seen as part of a larger and broader governance issue. The context of the principles needs to incorporate a much broader range of public interest in the accountability of management.

We must concur with the view of TUAC that the revised text does not adequately represent those "broad features considered essential for the development of good

governance practice". We share the concern that the current draft is too weak on such issues as curbing inappropriate levels of executive remuneration, delivering shareholder responsibility, curbing excesses of power of "imperial CEOs", ensuring the accountability of Boards of Directors, and giving real rights to stakeholders.

The ICFTU also joins the opinion of TUAC that the present text does not sufficiently meet the needs of those institutional investors that seek to exercise responsible stewardship over specific companies. Many pension fund trustees would like to take a much more engaging role, often through their investment managers. How to make sure that workers, who, through their retirement funds, essentially own parts of companies and who depend on its well-functioning for their retirement, is an important aspect of this debate. These principles of corporate governance are not only a way to regain the confidence by the general public, it is also a way to protect their interests as, increasingly, it is their money that is being invested.

As to the text of chapter III, we fully support the view of TUAC and others that the stakeholder chapter must be strengthened. Presently the chapter seems to be an attempt to settle an ongoing debate with a minimalist position. This is despite a growing recognition that expectations with respect to management accountability must be brought closer in line with the expectations of society concerning the positive effects of business activity. The current revised text does not inform corporations on the best practises that contribute to the effective representation of the interests of stakeholders whose rights are established (by law, by contract, sector wide agreements or by any other voluntary commitment of the corporation). This chapter should be in line with current trends, as well as with those best practises.

It is especially regrettable that there is no consideration in the text of the practise in many continental European countries for workers' participation and social dialogue. The chapter does not reflect the situation of many OECD members or of most European countries with respect to this issue. The European Works Council Directive, the directive on generalised information and consultation rights for employees, the European Company Statute, as well as the proposed take-over directive that specifically includes a model for employee consultation (article 14) constitute important practices with respect to stakeholders that ought to be reflected in this chapter.

The treatment of stakeholders does not sufficiently distinguish among various stakeholders by taking into account the nature of their various interests and their role in increasing accountability. This is especially important with respect to employees whose interests should be provided for within the corporate governance framework. Such employee representation cannot always be linked to economic performance. We agree with TUAC that there is a conceptual misunderstanding between performance enhancing mechanisms and representation.

Thank you for taking our views into account.

Yours sincerely,

General Secretary