

ETHICS, DISCLOSURES, AND TRANSPARENCY IN FOCUS

DECEMBER 2024

Promoting Ethical Integrity, Open Disclosures, and Transparency

- Message from the Chair
- Ethics in Corporate Governance: A pillar for long-term success
- The role of disclosures in building trust and accountability
- Transparency as catalyst for improved corporate governance.
- Recommended reading

NEXT ISSUE

Entrepreneurship and Innovation

THE MESSAGE FROM THE CHAIR

-Shirley Payet-Jacob; Chair of the CGDF Working Group; Manager, Corporate Governance British International Investment plc.

As we just observed Global Ethics Month this October, it is an opportune time for us on the CGDF working group to reflect on the integral role that ethics, integrity, disclosures, and transparency play in corporate governance. In today's complex global environment, these principles are foundational to building trust, fostering accountability, and ensuring sustainable value creation for our member organizations and preventing unintended harms.

The current geopolitical landscape, coupled with increasing investor engagement and regulatory changes, demands that companies place a heightened emphasis on ethical and integrity practices. The new heightened focus on ESG factors has underscored the need for boards to look beyond compliance and integrate ethical and integrity considerations into the strategic decision-making processes. While ethical and integrity considerations are largely absent in leading ESG frameworks, there are extensive links between this topic and ESG impact ([Transparency International, Investing with integrity 2022](#)).

Effective this year in Canada, the Corporate Transparency Act, 2024, further amplifies the call for greater transparency in business operations. The Canadian legislation requires companies to disclose detailed information about beneficial ownership, thereby promoting ethical conduct and curbing financial malpractices. This legislation reinforces the importance of transparent disclosures in the integrity of corporate governance structures.

Investor disclosures, such as those mandated by the SEC's 13F filings, continue to influence corporate governance dynamics. These disclosures provide crucial insights that affect various aspects of governance, from shareholder proposals to hedge fund activism. However, they also raise important considerations about how transparency is managed and the potential impacts on different stakeholders

During Global Ethics Month, on behalf of the working group, I encourage all members of the CGDF and our broader community to reaffirm our commitment to these values. By embedding ethics, integrity, transparency, and accountability into our corporate governance frameworks, we can navigate the complexities of the modern business environment with integrity and foresight.

Let us use this opportunity to engage in meaningful dialogue, share best practices, and strengthen our resolve to uphold the highest standards of ethical conduct in corporate governance. Together, we can build a future where trust, transparency, and ethical leadership are at the forefront of our collective success



Ethics in Corporate Governance: A Pillar for Long-Term Success

Ethical conduct in corporate governance is not merely a regulatory requirement but strategically important. Ethical governance reflects an organization's commitment to transparency, fairness, and social responsibility—cornerstones that build long-term trust with stakeholders. For companies, this is not just about avoiding legal consequences but about fostering a sustainable business that stands the test of time.

The Role of the Board in Ethical Corporate Governance

The board plays a central role in fostering an ethical culture throughout the organization. By setting the tone at the top, the board ensures that ethical principles are embedded in the company's governance framework and operational practices. This includes overseeing the development of robust codes of conduct, ensuring open discussions around ethical dilemmas, and holding leadership accountable for maintaining high standards of integrity.

Boards must also monitor adherence to ethical principles and take decisive action in response to ethical breaches, especially at the executive level. Such breaches can severely damage a company's reputation and financial stability. According to the 2023 Ethics & Compliance Benchmarking Report by LRN Corporation, organizations with strong ethical cultures report 67% fewer misconduct incidents. This underscores the importance of the board's role in shaping and maintaining an ethical corporate environment.

In the age of ESG (Environmental, Social, and Governance), the importance of ethics is even more pronounced. Consumers, investors, and regulators are scrutinizing corporations not just for their financial performance but for their social impact. The board is tasked with ensuring that ethical governance supports broader ESG goals, aligning corporate values with stakeholder expectations.

Case Study: The World Bank's Public Financial Disclosure Program

A notable example of commitment to ethical governance is the World Bank's Public Financial Disclosure Program. This program mandates that senior leaders disclose their financial interests and any potential conflicts of interest. The board plays a critical role in overseeing this initiative, ensuring transparency and mitigating risks related to conflicts of interest.

By embedding ethics and transparency into its governance structure, the World Bank strengthens its reputation and fosters trust among global stakeholders. The financial disclosure program not only safeguards the institution's integrity but also aligns organizational leadership with the institution's mission of reducing poverty and promoting sustainable development.

The World Bank's efforts demonstrate how proactive board governance can mitigate ethical risks and enhance the institution's credibility, serving as a model for other organizations. Boards that actively promote transparency and ethical leadership can protect their organizations from reputational harm while driving long-term success.

Practical Recommendations for Boards:

Establish a Clear Code of Ethics:

Boards should ensure the organization adopts a code of ethics communicated across all levels of the company.

Ethics Training:

Regularly train board members, executives, and employees on ethical decision-making.

Whistleblower Mechanisms:

Implement robust mechanisms to protect individuals reporting misconduct, ensuring a culture of accountability and trust.

References: LRN Corporation. (2023). Ethics & Compliance Benchmarking Report: Measuring the Impact of Corporate Culture.



The Role of Disclosures in Building Trust and Accountability

Effective governance hinges on the principle of transparency, and one of the most crucial tools for transparency is accurate, timely, and comprehensive disclosures. Disclosures ensure that shareholders, investors, and other stakeholders are well-informed about the organization's financial performance, risk management practices, and social and environmental impact. A failure to disclose critical information, or to delay it, can severely damage a company's credibility and its standing in the market.

The Board's Role in Ensuring Comprehensive Disclosures

Boards play a critical role in setting the tone and structure for effective disclosure practices. They must oversee and approve the organization's disclosure policies, ensuring alignment with regulatory requirements and stakeholder expectations. Boards are also responsible for ensuring that disclosures are not only accurate and timely but also reflective of the organization's long-term strategy and commitment to accountability.

While financial disclosures have long been a central part of corporate governance, today's stakeholders are demanding more. Non-financial disclosures, particularly those related to ESG performance, have become just as important. The 2023 KPMG Survey of Sustainability Reporting found that 79% of the world's top 250 companies report on sustainability-related risks, demonstrating the increasing emphasis on non-financial disclosures.

Boards must ensure that their company's disclosures are comprehensive and meet the expectations of both regulatory bodies and stakeholders. This means going beyond the numbers to provide insights into how the company is managing risks related to climate change, labor practices, governance structures, and other ESG factors. They also need to ensure that such disclosures are reliable and based on globally accepted frameworks, thereby safeguarding the organization's credibility and trust.

Regional Initiatives and the Board's Role

Moreover, the ASEAN Corporate Governance Scorecard, supported by ADB, evaluates the corporate governance standards of publicly listed companies across ASEAN nations. The scorecard promotes the adoption of international best practices, enhancing the region's capital markets and reducing vulnerability to financial crises. Boards of organizations in the region are instrumental in driving the adoption of these best practices, ensuring their companies' disclosures align with global standards.

A 2023 BlackRock Investor Survey found that 88% of investors now incorporate ESG data into their investment decisions, underscoring the growing demand for ESG-related transparency. Integrated reporting, which combines financial and non-financial disclosures in a single, coherent report, is also gaining momentum. This approach allows companies to demonstrate how ESG factors are intertwined with financial performance, providing stakeholders with a more complete picture of the organization's strategy and value creation over time.

Practical Steps for Boards:

Adopt Integrated Reporting:

Combine financial and ESG disclosures to create a unified report that reflects the organization's overall strategy.

Ensure Timely and Clear Disclosures:

Boards must oversee the accuracy, clarity, and timeliness of information shared with stakeholders.

Use Recognized Frameworks:

Leverage internationally accepted frameworks like the GRI (Global Reporting Initiative) or SASB (Sustainability Accounting Standards Board) for ESG disclosures.

References: KPMG. (2023). Survey of Sustainability Reporting. 3. BlackRock. (2023). Investor Survey on ESG Integration.

Transparency as a Catalyst for Improved Corporate Governance

Transparency is more than just a good governance practice—it is a competitive advantage in today's business environment. Transparency creates accountability and builds trust with stakeholders, including investors, customers, employees, and regulators. When a company is open about its operations, risks, and performance, it demonstrates that it has nothing to hide, which in turn fosters confidence and trust.

Case Study - Asian Development Bank's (ADB) Task Force on Climate-Related Financial Disclosures (TCFD) Initiative

ADB has incorporated the TCFD framework into its governance and risk management structures to enhance transparency in how it addresses climate risks. The 2021 report outlines how ADB has begun integrating climate considerations into decision-making processes at the highest levels, ensuring that stakeholders understand the bank's efforts to mitigate environmental risks.

Boards play a key role in initiatives like ADB's TCFD implementation by providing oversight and ensuring that climate risks are integrated into governance and operational practices. By championing transparency at the board level, organizations like ADB demonstrate leadership in ESG-related disclosures.

Disclosures, especially those related to ESG, are increasingly scrutinized by investors. The 2023 KPMG Survey of Sustainability Reporting shows that 79% of the world's top 250 companies now report on sustainability, underscoring the growing demand for ESG transparency. Boards must ensure that disclosures go beyond financial performance to include material information about risks and opportunities related to sustainability.

ADB's implementation of the TCFD framework sets a strong example for financial institutions and corporations looking to integrate climate risks into governance structures. By providing stakeholders with clear, comprehensive disclosures on ESG factors, ADB enhances accountability and trust.



The Board's Role in Fostering Transparency

The board plays a critical role in ensuring that transparency is embedded into the organization's governance framework. By overseeing the disclosure of relevant information and ensuring clarity in decision-making processes, the board helps maintain stakeholder trust. Transparency must extend beyond routine reporting; it should encompass how decisions are made, especially at the highest levels of governance.

Shareholders need to understand how the board and executive management arrive at key decisions, particularly those concerning risk management, executive compensation, and ESG initiatives. Boards are responsible for setting the tone for transparent practices and ensuring that these processes are well-communicated to stakeholders. The transparency of these practices can significantly impact shareholder confidence and engagement.

One of the most crucial areas of transparency is executive compensation. Boards must ensure that companies are upfront about how they reward their top executives, demonstrating alignment with company performance and stakeholder expectations. A 2023 report by the Principles for Responsible Investment (PRI) highlights that transparent executive pay practices are increasingly important in attracting responsible investors and maintaining good governance practices.

Transparency During Crises

Transparency is also key in managing stakeholder expectations, especially during crises. The board's role in guiding crisis communication and ensuring openness about the company's situation and its plan to address challenges is critical to maintaining trust. The COVID-19 pandemic highlighted the importance of transparent crisis communication, as stakeholders became increasingly concerned with how companies were managing health risks, supply chain disruptions, and employee well-being.

Boards must ensure that the organization communicates openly and frequently during such times, demonstrating accountability and reinforcing confidence among stakeholders.

Case Study: ASEAN Corporate Governance Scorecard

The ASEAN Corporate Governance Scorecard, supported by ADB, provides a notable example of how transparent governance and disclosure standards help companies across the region raise their standards and better align with global investor expectations. Boards in ASEAN-based companies have played a pivotal role in driving adoption of these standards, demonstrating leadership in enhancing transparency.

Transparency Highlights and Practical Recommendations for Boards:

Disclose Decision-Making Processes: Ensure that stakeholders are informed about how decisions regarding executive compensation, risk management, and ESG initiatives are made.

Regular Updates: Oversee regular updates on the company's performance, encompassing financial and ESG dimensions.

Crisis Communication: During times of crisis, ensure open and frequent communication with all stakeholders to maintain trust and alignment.

References: Principles for Responsible Investment (PRI). (2023). Executive Pay and Transparency: Investor Trends.

Articles

Trends shaping corporate governance in 2024 Five areas to watch

January 10, 2024

Trends shaping corporate governance in 2024
Five areas to watch



Beyond "Market Transparency": Investor Disclosure and Corporate Governance



Harvard Law School Forum on Corporate Governance

HOME ABOUT ARCHIVE CATEGORIES HIRING BLOGROLL

GO

2024's New Corporate Transparency Law: What Every Business Must Know

law inc[®]
FORM • PROTECT • GROW

The confluence of geopolitical risk and ESG issues

KPMG

The confluence of
geopolitical risk and
ESG issues

KPMG Board Leadership Centre



Transforming the Fight Against Trade-Based Money Laundering: New Data and Partnerships



ASIAN DEVELOPMENT BANK

WHO WE ARE

WHAT WE DO

WHERE WE WORK

WORK WITH US

Search

English

Government of Canada Trust and Transparency Strategy



Treasury Board of Canada
Secrétariat

Secrétariat du Conseil du Trésor
du Canada

Canada

Beyond "Market Transparency": Investor Disclosure and Corporate Governance

Stanford Law Review



Volume 74

June 2022

The importance of being transparent A review of climate-related and environmental risks disclosures practices and trends



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Good practices in asset disclosure systems in G20 countries

Good practices in asset disclosure systems in G20 countries

Financing a better world requires impact transparency, integrity and harmonisation

