

# Transparency frameworks for state-owned enterprises in Asia



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# Foreword

This report provides an overview of national policy frameworks for improving transparency and disclosure in state-owned enterprises (SOEs) in nine Asian countries (Cambodia, India, Indonesia, Kazakhstan, Korea, Malaysia, Pakistan, the Philippines and Viet Nam). The report has been prepared as the result of the work of the OECD-Asia Network on Corporate Governance of State-Owned Enterprises, which provides a forum for policy makers, practitioners and experts from Asian region to identify common challenges related to SOE ownership and governance, share good practices and develop recommendations for effective reform.

The information in this report is drawn from national responses to a questionnaire circulated to ownership entities and other relevant authorities participating in the 12th Meeting of the OECD-Asia Network on Corporate Governance of State-owned enterprises held in Manila, the Philippines on 4-5th September 2019, which was hosted by the Governance Commission of the Government-Controlled Companies of the Philippines and Asian Development Bank, with the financial support of the Korea Institute of Public Finance. This final report has been enriched with supplementary information based on meeting discussions and additional national submissions.

This report constitutes part of a larger and ongoing Network effort to share experiences and good practices for promoting business integrity in SOEs. The report was prepared by Chung-a Park of the Corporate Finance and Corporate Governance Division of the OECD Directorate for Financial and Enterprise Affairs. The report benefits from comments and inputs from the Research Center for State-owned entities of the Korea Institute of Public Finance.



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# 1 Introduction and overview

This report examines national practices for improving the transparency and disclosure of SOEs by focusing on relevant legal regulatory frameworks and policies applicable to SOEs in select Asian economies. The information in this report is drawn from national responses to a voluntary questionnaire circulated to ownership entities and other relevant authorities participating in the 12<sup>th</sup> Meeting of the Asia Network on Corporate Governance of State-owned enterprises that was held in Manila, the Philippines on 4-5<sup>th</sup> September 2019. Information was self-reported by the following jurisdictions: **Cambodia, India, Indonesia, Kazakhstan, Korea, Malaysia, Pakistan, the Philippines and Viet Nam.**

Questionnaire responses were received and discussed in “peer review” mode in the context of the Meeting. When relevant, this interim report also draws from information gathering exercises conducted in 2016 and 2017. This final version of the report has been enriched with supplementary information based on meeting discussions and additional national submissions.

The first part of the report provides a brief overview of internationally recommended practices for ownership entities in the area of SOE disclosure and reporting practices, introducing key relevant policy tenets of the OECD Guidelines on Corporate Governance of State-Owned Enterprises (the “SOE Guidelines”), the newly launched OECD Guidelines on Anti-corruption and Integrity in the SOE sector (“ACI Guidelines”) and the OECD Accountability and Transparency Guide for State Ownership (the “Accountability and Transparency Guide”).

The following section examines the institutional arrangements for exercising the state ownership function and various measures for developing and implementing disclosure and reporting system within the SOE sectors in the surveyed Asian countries including: accounting and auditing standards and publicly disclosed aggregate reporting on the SOE sector.



## **2** International recommendations on SOE transparency and disclosure

Every SOE operates within a specific legal, institutional and economic context, and any attempt to improve its governance needs to be tailored to those circumstances. Nevertheless, there are key lessons on SOE governance reform, both general and focused on transparency and disclosure, which countries can garner from the internationally agreed standards. For note, OECD's instruments are widely recognised as a source of good practices extending well beyond the Organisation's membership. The SOE Guidelines were last revised in 2015 and the ACI Guidelines were adopted by OECD governments at the annual OECD Ministerial Council Meeting on 22-23 May 2019. A large number of emerging economies and developing countries participated in the respective processes and made important contributions.

The SOE Guidelines are founded on the principle that SOEs should be as transparent towards the general public as a publicly listed corporation is expected to be towards its shareholders to ensure that the state exercises its powers in accordance with the public's best interest. (see Chapter VI.A). The Guidelines recommend that governments improve transparency and accountability at both the company level and the level of the state in order to contribute to the evaluation of the SOEs. As for financial disclosure, the SOE Guidelines call for SOEs to keep accounts in accordance with internationally-agreed accounting standards and subject their financial statements to an independent external audit, based on relevant international auditing standards. It is also recommended that SOEs put in place comprehensive internal audit procedures, overseen by an audit committee within the board of directors or its functional equivalent. (see Chapter VI.B).

The SOE Guidelines also state that the ownership entity should prepare an aggregate report covering all SOEs and make it a key disclosure tool for the general public, legislators and the media. The reporting should be done in a way that enables all readers to have a clear vision of the performance of SOEs. According to the Guidelines, aggregate reporting is key for the ownership entity in strengthening its understanding of the performance of SOEs and in clarifying its own policy (See Chapter VI.C).

The newly launched ACI Guidelines also include specific recommendations on transparency and disclosure measures at both state level and enterprise level. The ACI Guidelines are the first international instrument to offer the state, in its role as an enterprise owner, support in fighting corruption and promoting integrity in SOEs. Select ACI Guidelines' provisions on SOE transparency and disclosure measures are provided in the box below (See Box 1).

**Box 1. Select ACI Guidelines’ provisions on SOE transparency and disclosure measures**

**A. Integrity of the State**

5. vii. Maintaining high standards of transparency and disclosure when SOEs combine economic activities and public policy objectives regarding their cost and revenue structures, allowing for an attribution to main activity areas.

5. viii. Ensuring that the ownership entity is equipped to regularly monitor, review and assess SOE performance, and oversee and monitor SOE compliance with applicable corporate governance standards – including those related to anti-corruption and integrity.

**B. Exercise of state ownership for integrity**

5.iii. Developing a disclosure policy that identifies what information SOEs should publicly disclose, the appropriate channels for SOE disclosure and SOE mechanisms for ensuring quality of information. With due regard for SOE capacity and size, the types of disclosed information should follow as closely as possible to those suggested in the SOE Guidelines, and could additionally include integrity-related disclosures. The state should consider developing mechanisms to measure and assess implementation of disclosure requirements by SOEs.

5. iv. Disclosing all financial support by the state to SOEs in a transparent and consistent fashion

**C. Promotion of Integrity and Prevention of Corruption at the Enterprise Level**

6. The state should expect that SOEs apply high standards of transparency and disclosure akin to good practice listed companies, or to firms in like circumstances, and in line with the state’s disclosure policy. In addition, the state could encourage disclosure of the organisational structure of the SOE, including its joint ventures and subsidiaries.

Source : (OECD, 2019), Guidelines on Anti-Corruption and Integrity in State-Owned Enterprises

Lastly, the OECD guidebook entitled *Accountability and Transparency: A Guide for State Ownership* (“The Accountability and Transparency Guide”) provides details about developing aggregate reporting and specific processes within the ownership entity to collect and synthesise information on SOEs. Policy makers should identify the scope of information to be disclosed; to whom and by what method the information should be disclosed; and the processes for enhancing information quality. In doing so, it is recommended to involve active consultation and co-ordination among different parts of the ownership entity and with the SOEs and other government departments concerned. In collecting information from both within the ownership entity and from the SOEs themselves, key messages could be clarified and activate internal discussion within the ownership entity. When the final draft is endorsed by the relevant authority, ownership entities could then make active use of aggregate reports, including with the media to push further for improvements of transparency and disclosure.

# 3 Policy frameworks for improving transparency and accountability of SOEs

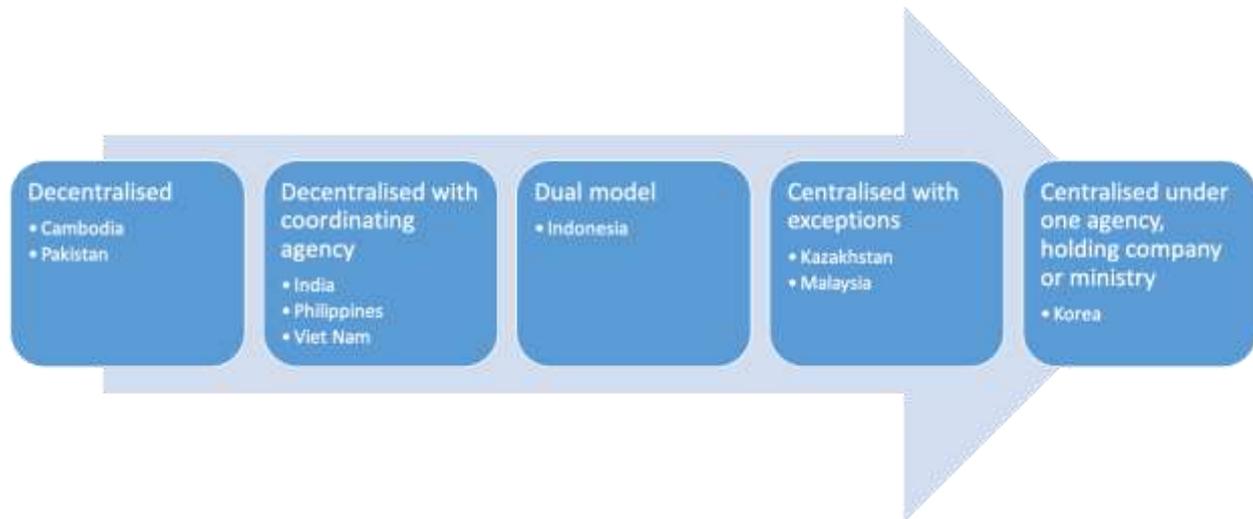
## National institutional arrangements for the exercise of the state ownership function

The development of a clearly defined state ownership policy that defines the overall objectives of state ownership and the state's role in the corporate governance of SOEs is one of the key elements for establishing good SOE governance and enhancing accountability of SOEs, according to the SOE Guidelines (Chapter II.A). A government's capacity to develop and implement such an ownership policy depends partly on the structure of ownership function.

A number of the surveyed countries (**Indonesia, Kazakhstan, Korea, and Malaysia**) have achieved a degree of centralisation of the state ownership functions by establishing either a central state ownership entity or a holding company (or companies) responsible for overseeing portfolios of major SOEs. These countries have put in place or updated key elements of their ownership policies and key objectives. They have taken steps to separate ownership and regulatory functions and are in the process of improving ownership policies and SOE governance through laws, regulations, company-specific acts or the code of conduct for SOEs.

Some other countries (e.g. **India, the Philippines and Viet Nam**) have developed institutions and procedures within formally decentralised systems to gather cross-government information and adopted some degree of policy co-ordination through the creation of co-ordination agency. Yet other countries (e.g. Cambodia and Pakistan) retain decentralized structures under which line ministries are entrusted with the ownership of SOEs within their sectors of the economy. In these countries, with state ownership exercised by a multitude of individual ministries, explicit state ownership policies have not been established either.

**Figure 1. State ownership structures in Asia**



Source: OECD

### ***National Practices***

In **Cambodia**, a number of major economic activities are carried out either in the general government sector or by enterprises which, without being classified as SOEs, are closely linked to the public authorities. The Ministry of Economy along with the responsible line ministries or authorities exercise close control over operation and financial status of public enterprises of which the stakes are 100% or mostly owned by the state. The laws and regulations that govern SOEs include Law on General Status of Public Enterprise, Law on Public Procurement, Law on Auditing, government regulation (so-called “Prakas”) on Corporate Governance and Prakas on Corporate Disclosure. These laws prescribe roles and responsibilities of board of directors and CEO, procurement procedures and reporting obligations. However, the government has not yet developed explicit state ownership policy. According to the strategic development plan of the government, SOEs of which the stakes are 100% owned by the government are allowed to go public. Out of the total eight companies that are listed on Cambodia Securities Exchange, three are SOEs.

**India** has SOEs mostly at two levels – both central and sub-national level. The term SOEs used in India refers to the SOEs at the central level called as Central Public Sector Enterprises (CPSEs). The country has a decentralised-and-coordinated ownership model for the exercise of the state ownership. Co-ordination of institutional arrangements is exercised by the Department of Public Enterprises (DPE), Ministry of Heavy Industries and Public Enterprises and Government of India (GOI). Head of the DPE is supported by Additional Secretaries and Joint Secretaries. The Secretary of the DPE is required to report administratively to the Minister. The SOEs as per their activity are allotted to the various ministries or departments of the GOI. Some constitutional authorities like the Comptroller and Auditor General of India (CAG), Chief Vigilance Commissioner also exercise control on SOEs. The SOEs are required to be accountable through their administrative ministries or departments to the Indian Parliament. There is no explicit state ownership policy in place. Objectives of SOEs are developed by line ministry and SOE in a consultative manner, taking into account the overall federal policy direction of the government.

In **Indonesia**, SOEs (Badan Usaha Milik Negara or BUMN) are classified as either public utility enterprises (“Perum”) or limited liability SOEs (“Persero”). They are governed by Law on State-Owned Enterprises dated 19 June 2003 (“Law No. 19/2003”) which articulates the objectives for state ownership. The Ministry of SOEs acts as a state shareholder in all limited liability SOEs (“Persero”) which operate primarily ‘for profit’ businesses as per the Law No. 19/2003. The Ministry of Finance also exercises state ownership rights in several “Persero”. As for SOEs

that are specifically assigned for both public and social objectives – Social Insurance Administration Organisations (BPJS-Badan Penyelenggara Jaminan Sosial) – the Board of Directors and Board of Commissioners are appointed directly by President. Only Board of Commissioners are required to have an approval from House of Representatives (DPR - Dewan Perwakilan Rakyat). The SOEs at national level and the SOEs at sub-national (regional) or provincial level have different types of ownership. Regional SOEs (BUMD) owned by provincial government are governed by provincial governors or city mayors according to the Regional Autonomy Act.

In **Kazakhstan**, there are three separate holding companies that account for almost all of the SOE sector. One of them is a sovereign wealth fund “Samruk-Kazyna” which was founded in accordance with the Decree of President of the Republic of Kazakhstan dated 13 October 2008 (No. 669). There are 317 companies in the Fund’s portfolio (group) according to the 2018 annual report which is publicly available at [www.sk.kz](http://www.sk.kz). The companies of the Fund group are established in the form of joint stock companies and private limited liabilities, as well as other forms. The government holds 100% of shares of the Fund. The government governs the Fund through exercising its powers as the sole shareholder of the Fund, as provided by the Law “On the Sovereign Wealth Fund” and the Fund’s Charter, and through its representation on the Fund’s board of directors. The general objectives for State’s enterprise ownership are presented in Article 192 of the Entrepreneurial Code of the Republic of Kazakhstan.

In **Korea**, the term SOE covers public corporations, quasi-governmental institutions and non-classified public institutions. In accordance with the 2007 Act on the Management of Public Institutions, the Ministry of Economy and Finance (MOEF) exercises the ownership of all commercially important SOEs through the Ownership Steering Committee. At the same time, each line ministry controls a portfolio of businesses and related policies regarding SOEs under its jurisdiction. The Ownership Steering Committee makes decisions on the key policy issues regarding the oversight of SOEs. The Committee, headed by the Minister of Economy and Finance, consists of government representatives and no more than 11 civilian members with acknowledged expertise. Each SOE is required to develop medium-and long-term management goals under the purview of the MOEF and the responsible line ministries.

In **Malaysia**, the label SOE typically covers large companies known as government-linked companies (GLCs). The control that the government exercises over these companies is quite significant, although via different legal structures. The government has organised its SOE portfolio under seven government-linked investment companies (GLICs) that would in OECD vernacular be called state holding companies – Khazanah Nasional, Permodalan Nasional, Employees Provident Fund, the Pensions Trust Fund, Armed Forces Savings Fund, the Pilgrims Savings Fund, and the Minister of Finance Inc. (See box 2) All of them participate in for-profit investing as their main commercial activity, but in the exercise of their powers the GLICs often act essentially as governmental institutions ensuring state control over their portfolio companies. The MoF Inc., which is the biggest and the most powerful of them all, functions as a division of the Ministry of Finance. It is controlled solely by the Minister of Finance and does not have a board of directors.

### Box 2. GLICs and GLCs in Malaysia

Most of the Government-linked companies (GLCs) are wholly or majority owned subsidiaries of Government-linked investment companies (GLICs). Some of the GLCs are listed on the Bursa Malaysia Market while GLICs also control many unlisted companies. There are 7 government-controlled entities classified by the treasury that act as government mandated investment bodies. Two of the GLICs can be classified as typical SOEs (by virtue of existing as public limited company (Berhad) and fully owned by the government through equity holdings under the general Companies Act 1965 and their activities are economic in nature): Khazanah Nasional Berhad (KNB) and Permodalan Nasional Berhad (PNB). KNB is registered as public limited company and the majority shareholder is the government through the Ministry of Finance Inc (MoF Inc.). PNB is also registered as a public company under the Companies Act 1965 although it is wholly-owned by the more obscure Yayasan Permodalan Berhad (YPB), a government trust foundation. Subsequently, any other company that Khazanah or PNB has a controlling stake, would also count as SOEs (e.g. UEM Sunrise and Malaysia Airlines).

The other GLICs may not as naturally fall into the SOE category (they are instead statutory bodies or statutory companies established by their own specific legislation). Five of the GLICs are formed as statutory bodies: Lembaga Tabung Haji (Pilgrimage Fund), Employees Provident Fund (EPF), Kumpulan Wang Amanah Pencen (KWAP), and Lembaga Tabung Angkatan Tentera (LTAT), Menteri Kewangan Diperbadankan (Ministry of Finance Inc). As such, companies where the GLICs own a controlling stake will also fall within the definition of GLC/SOEs. Further there are several incorporated statutory bodies, controlled by government and where their activities though not primarily in investment but can be classified as largely economic in nature, for example Majlis Amanah Rakyat (MARA), and FELDA.

Another type of SOE is “Yayasans” which are not tied to the Executive directly and the legal foundations are unclear. Two of these foundations are Yayasan Ekuiti Nasional (YEN) and Yayasan Permodalan Berhad (YPB). Both however have the entirety Board of Trustee members made up of important government officials. YEN owns Ekuinas while YPB as mentioned owns PNB. Other than the fact that they are registered in the Registrar of Societies, not much is known about the arrangements and governance of these various Yayasans.

Source: Questionnaire responses from Malaysian authorities

In **Pakistan**, public sector is regulated under several legislations such as Rules of Business (1973), Public Investment (Financial Safeguard) Ordinance (1961), Fiscal Responsibility and Debt Limitation (FRDL) Act (2005) and Public Sector Companies (PSC) Corporate Governance Rules (2017). The line ministries are responsible for the exercise of the government’s ownership rights in SOEs and make key decisions at both strategic and operational level, depending on the company. They nominate most of the government-appointed board members and the chief executives. Administratively, there are 18 ministries and 2 divisions that oversee the management of 197 SOEs. Ministry of Energy (after combining power and petroleum divisions) oversees the largest number of SOEs – 47 SOEs – followed by the Ministry of Industry and Production with 37 SOEs. Ministry of Finance comes third with the management of 31 SOEs. The Ministry of Finance oversees budgets and expenses, and often appoints a board member to a public sector company. . It also produces an annual report on the PSCs and their performance. The Prime Minister’s office often formally appoints board members. The Securities and Exchange Commission of Pakistan (SECP) sets and enforces corporate governance policy for the PSCs through the PSC Corporate Governance Rules.

In the **Philippines**, SOEs are generally referred to as “Government-Owned-or-Controlled Corporations (GOCCs)” with specific subsets such as “Government Financial Institutions (GFIs).” They are organized under a specific charter which grants to them operational autonomy and exercising corporate powers, usually vested in a Board of Directors. The President of the Philippines primarily represents the State as Owner of GOCCs. Under Republic Act (R.A.) No. 10149 or the GOCC Governance Act of 2011, the State exercises its ownership rights in GOCCs as represented by the Governance Commission for GOCCs (GCG). The GCG is the central policy-making and regulatory body mandated to safeguard the State’s ownership rights and monitor the performance of 104 GOCCs. To institutionalize the State’s Ownership Policy, the GCG created the Ownership and Operations Manual Governing the GOCC Sector or GCG Memorandum Circular No. 2012-06. Article 8 of the Memorandum Circular provides for the role and responsibilities of the State in GOCCs acting through the National Government.

**Viet Nam** established in late 2018 a special co-ordination agency acting state ownership function named the Committee for Management of State Capital (CMSC) in accordance with the Law on Investment and Business for State Capital. Its aim was to integrate state ownership functions of the government, line ministries and provincial committees. As of now, CMSC is managing 19 biggest SOEs operating in sectors such as oil, gas, coal and mineral with total state capital of nearly 45 billion USD. However, state ownership is still exercised by the line ministries, provincial committees and State Capital Investment Corporation (SCIC) responsible for sectoral policy and regulation in the relevant markets.

## Requirements for periodic disclosure of financial and non-financial information by SOEs

Two thirds of the surveyed jurisdictions indicate that their disclosure and reporting requirements for SOEs are mainly driven and defined by companies law and/or listing requirements, sometimes supplemented with standards or requirements that are specific to SOEs (**Cambodia, India, Indonesia, Kazakhstan, Malaysia and Pakistan**). In other countries (**Korea, the Philippines, Viet Nam**) the state ownership or co-ordinating entity has put in place specific reporting and disclosure requirements applicable to all SOEs. Only **Korea, the Philippines and Viet Nam** have reporting requirements for financial assistance, including guarantees, granted by the state to the SOE, as well as any commitment that the state undertakes on behalf of an SOE. SOEs in these countries are required to disclose such information in their annual report or annual financial statements. The extent of the disclosure is largely determined by applicable accounting standards.

### *National Practices*

**Cambodia** has updated its Accounting Law and adopted international accounting standards as part of its efforts to improve corporate transparency. The Prakas on Corporate Governance for Listed Companies provides a separate chapter on “Corporate Transparency and Disclosure” which requires listed companies including listed SOEs to prepare and disclose the Corporate Governance Report as an appendix to the annual report. The report should cover key information related to board of directors, board remuneration, board committees, board performance assessment, rights of shareholders and stakeholders, risk management, internal control and auditing, code of conduct, investor relations and corporate social responsibility. The Securities and Exchange Commission of Cambodia (SECC) adopted a separate Prakas on corporate disclosure which was amended in late 2018, with the same level of enforcement as the Prakas on Corporate Governance for Listed Companies. There are no SOE-specific obligations on disclosure and reporting for the time being.

In **India**, as per the requirement of the Companies Act 2013, each SOE is required to present its annual report to shareholders in the Annual General Meeting. The annual report provides information on balance sheets, management issues, financial performance, return on investment, R&D scenario, corporate governance, status of investments, remarks and qualifications of auditor, composition of audit committee, compliance with Indian accounting standards, directors’ remuneration, compensation to the executives above a certain limit prescribed by the government, compliance to code of conduct, certification of compliance, etc. These data cover the year of reporting and the preceding year. Central SOEs (CPSEs) have a Central Vigilance Officer that reports to the Central Vigilance Commission of the central government. They are subject to an evaluation based on a performance agreement between the SOE and its administrative ministry.

In **Indonesia**, the requirements for periodic disclosure are based on Law No. 19/2003 on SOEs, Law. No. 40/2007 on Limited Corporations, Ministry of SOEs Regulation No. PER-11/MBU/10/2014 on Good Corporate Governance (GCG) Implementation for SOEs and the Ministry of SOEs Regulation No. PER-18/MBU/10/2014 on Electronic Presentation of Data, Report and Document of SOEs. There are specific disclosure obligations only for listed SOEs. Indonesian Financial Services Authority (OJK-Otoritas Jasa Keuangan) provides an annual report on listed companies. The regulation POJK No. 29/POJK.04/2016 on listed companies defines areas for mandatory disclosure that should be covered by the annual report on public companies. The disclosure items include key financial information; board of directors; board of commissioners; profile of listed and public companies; management analysis and discussion; corporate governance; corporate social responsibility; and audited financial statements.

The Ministry of SOEs in 2012 also issued Regulation No. PER-21/MBU/2012 on Implementation Guidelines on Financial Accountability of SOEs which requires that SOEs disclose information covering financial planning, managing, monitoring and reporting activities to the public. As for reporting requirements for financial assistance, the information on total amount of subsidy and capital injection (PMN – Penyertaan Modal Negara) for SOEs are

disclosed in an annual report. They are decided by the President and House of Representatives (DPR-Dewan Perwakilan Rakyat). The decision takes on an annual basis.

In **Kazakhstan**, the content and frequency of the financial information disclosure by SOEs is regulated by the Law on Accounting and Financial Reporting. According to the Article 19 of the Law, organizations (i.e. all separate legal entities, including companies), except for certain financial companies or organisations are required to present annual financial reports not later than 30 April of the year following the accounting year. It is up to individual companies to determine the terms of presentation of interim financial reporting.

All state-owned companies in the Fund Samruk-Kazyna's portfolio are additionally required to disclose their financial and non-financial information in accordance with the Law on Joint Stock Companies and Transparency Chapter of the Corporate Governance Code of the Fund. All companies of the Fund that are in the legal form of JSC and LLP should publish financial statements on quarterly basis as well as annual basis. Besides the financial information, based on requirements of the Corporate Governance Code, the Fund and its portfolio companies are also expected to annually publish sustainability reports according to the Global Reporting Initiative (GRI) Guidelines. A list of financial and non-financial information that the Fund Samruk-Kazyna and its portfolio companies are required to publish in their Annual Reports according to the Corporate Governance Code is provided below (See Box 3).

**Box 3. Financial and non-financial information that the Fund Samruk-Kazyna and its portfolio companies are required to publish in their Annual Reports according to the Corporate Governance Code of the Fund**

- 1) A report by the Chairman of the Board of Directors (Supervisory Board)
- 2) A report by the Head of the Executive Body
- 3) Information about the equity structure including the number and par value of issued shares (interests), a description of rights attached to the shares, the number and par value of authorised but unissued shares, the composition of the Shareholders (participants) and the number and percentage of ordinary shares (equity interest) they own, the procedure for disposing of ownership rights, mission, development strategy and progress toward its implementation, market overview and the Organisation's position in the market
- 4) Financial results for the year and an evaluation of operational performance (Review and analysis of performance against budget and other plans, operational and financial performance indicators, significant events and achievements, information about significant transactions, any financial support including guarantees obtained, or to be obtained, from the state and any liabilities to the state and society incurred by the Fund or the Organisation (if not disclosed elsewhere in the IFRS financial statements).
- 5) Structure of assets, including subsidiaries and dependent organisations and an overview of their financial and operational performance
- 6) Future goals and plans
- 7) Main risk factors and risk management systems,
- 8) Corporate Governance, composition of shareholders (participants) and ownership structure, composition of the board of directors, including members' qualifications and the process to select them, as well as independent directors and the criteria of their independence, report on the activities of the Board of Directors (Supervisory Board) and its Committees, information on compliance with the Code, and explanations for any instances of non-compliance, composition of the Executive body, a report on the Executive body's activities, officials' remuneration policy

9) Sustainable development. If there is a separate Sustainable Development report, it should be referenced in the annual reports

10) Audit report and financial statements with notes,

11) Analytical indicators and data in the Annual Report should include comparable data for the previous year, thereby showing whether progress has been made towards achieving the Organisation's objectives. It is recommended that the Annual Report include performance indicators for a benchmark analysis against international companies in the same industry. The Fund has policy and regulation on information disclosure, which determines and regulates the entire flow of information, which should be disclosed by the Fund in accordance with the requirements of the legislation and regulators.

Source: Questionnaire responses provided by Samruk-Kazyna

In **Korea**, Official Information Disclosure Act 1998 requires that information on the operation of the government agencies, SOEs, and public institutions be disclosed. Under this Act, all the SOEs are required to disclose information at the company level on the online information disclosure system called ALIO (All Public Information In-One, [www.alio.go.kr](http://www.alio.go.kr)) website since 2005. Korean SOEs are required to feed information of 42 items to the ALIO system (See Table 1). Information update frequency varies according to items. Some are annually updated and others are biannually or quarterly updated. Items related to status of executives, details of executives' overseas business trips, internal code of conduct and record of board of directors meeting are required to be updated within 14 days from the date of change. There are three items that are directly updated by the Ministry of Economy and Finance. These include results of performance evaluation; results of customer satisfaction surveys; and results of auditor's job performance evaluation.

With respect to board qualifications and selection processes, a new clause was added in 2016 to the Act on the Management of Public Institutions to make meeting minutes of the Committee for recommending SOE CEOs publicly available for inspection by the public unless the case is judged to be exceptional according to the Official Information Disclosure Act. At the same time, the Committee is mandated to disclose eligibility criteria for CEOs taking into account specialities and requirements of the corresponding corporation or institution. The Act was further amended in 2018 to require all SOEs and public institutions to disclose status of the wage difference between male and female executives/employees.

In **Malaysia**, publically listed SOEs are subject to the Bursa Malaysia listing requirements, fully corporatised SOEs to relevant provisions of the companies act, and statutory SOEs to individual reporting requirements. One major challenge is the variety of different forms of SOEs which becomes an obstacle in pursuing a comprehensive disclosure and reporting system. Another challenge is the lack of any consolidated reporting or assessment mechanism (such as Parliamentary oversight committee). It is well known that SOEs have been abused in various ways, including creating various vehicles for off-balance sheet financing which obscures government spending. Several cases of corruption and embezzled funds have come to limelight.

In **Pakistan**, disclosure requirements for public sector companies (PSCs) are established by the Companies Act and the PSC Corporate Governance Rules. Under the Companies Act, the board should hand in an annual report to shareholders. The report should include information on the company's key financial performance, investments and government financial support. Moreover, according to the PSC Corporate Governance Rules, PSCs are required to submit balance sheets to the Board and disclose their annual financial statements on their websites. The disclosure requirements for the 12 listed PSCs are driven by the Securities and Exchange Commission of Pakistan (SECP) and the Pakistan Stock Exchange (PSX). (World Bank, 2018). At the same time, it is considered that some important bilateral debt obligations are not adequately disclosed (2019, US Department of State).

**Table 1. Mandatory disclosure item list on SOE information disclosure system ALIO of Korea**

Category	Item
I. General information	1. Elementary introduction
II. Operation of Institution	2. The number of executives and employees 3. Status of executives 4. New employment, intern recruitment and flexible working hour arrangement 5. Annual remuneration of executives, including head of institutions (CEO), board members, and auditors. 6. Average monthly salary of employees 7. Business expenses by the head of institutions 8. Welfare expenses 9. Additional welfare-related information 10. Details of executives' overseas business trips 11. Details on Labour unions 12. Internal rules and regulations 13. Enforcement of disciplinary actions 14. Current status of lawsuits and attorney 15. Work and life balance program
III. Core businesses and Management performance	16. Condensed balance sheet 17. Condensed income statement 18. Revenue and expenditure 19. Core businesses 20. Breakdown of investments 21. Capital and shareholders 22. Short and long term debts 23. Investments and contributions 24. Annual endowments and grants 25. Estimation of burdensome operating costs 26. Mid and long term financial management plan(only for applicable SOEs) 27. Details on debts of 12 overleveraged public institutions 28. Tax payment 29. Audit reports
IV. Internal and external evaluation	30. Feedback from the National Assembly 31. Feedback from the Board of Audit and Inspection of Korea, and the responsible ministry 32. Results of performance evaluation 33. Feedback on the performance evaluation 34. Results of customer satisfaction surveys 35. Results of auditor's job performance evaluation 36. Board meeting minutes and internal audit results
V. Notification	37. Management innovation practices 38. Recruiting information 39. Bidding information 40. Research reports 41. Safety management 42. Other information

Source: Questionnaire responses from Korean authorities, [www.alio.go.kr](http://www.alio.go.kr)

In the **Philippines**, the overall disclosure and reporting obligation of GOCCs is elaborated by the ownership coordination entity (Governance Commission for GOCCs, or GCG) including requirements for developing a website and posting both financial and non-financial information of SOEs for public access. The obligation is generally stated in R.A. 10149, and specifically in the GCG Memorandum Circular 2012-07, which specifies both financial and non-financial information of GOCCs that should be disclosed. Other relevant provisions include Section 43 of GCG M.C.

2012-07, Section 45 on Mandatory Reports and Section 46 on other reportorial requirements. GOCCs are required to publish on their websites specific corporate information, including financial statements, performance scorecards and audited reports. They are also required to publish information including “any government subsidies and net lending” as well as “all borrowing guaranteed by the government” according to the Section 25 of the GOCC Governance Act of 2011.

The Department of Finance monitors GOCC’s financial performance especially with respect to the management of GOCCs’ liabilities, as well as the evaluation and approval of borrowing programs and investment/financing plans. GOCCs periodically report to the Secretary of Finance and the Secretary of Budget on the status of obligations subject to government guarantees. In case of non-compliance with reporting requirements, there are no explicit penalties in place. However, timely and accurate disclosure is one of the factors taken into account in the annual performance evaluation for GOCCs, which informs performance-based bonuses accorded to GOCC executives.

**Table 2. Overview of mandatory reporting requirements placed on SOEs in the Philippines**

Financial information	Non-financial information
<p>(a) Latest annual audited financial and performance report within thirty (30) days from receipt of such report;</p> <p>(b) Audited financial statements in the immediate past five (5) years;</p> <p>(c) Quarterly, annual reports and trial balance;</p> <p>(d) Current corporate operating budget;</p> <p>(e) Local and foreign borrowings;</p> <p>(f) Government subsidies and net lending;</p> <p>(g) All borrowings guaranteed by the government;</p> <p>(h) Common Form Financial statements based on annual audited financial statements within thirty (30) days from receipt of the report;</p> <p>(i) Dividend computations and payments in accordance with Republic Act No. 7656, also known as the Dividends Law;</p> <p>(j) Cash and Investment balances;</p> <p>(k) For GFIs, actual and projected statement of Cash Surplus/Deficit;</p> <p>(l) Capital Expenditure Program;</p> <p>(m) Statement of Financial Operations;</p> <p>(n) Acquisition and Disposition of Assets;</p> <p>(o) Off Balance Sheet transactions;</p> <p>(p) Reports for the annual corporate budget call such as but not limited to the following:</p> <ul style="list-style-type: none"> <li>• Physical and Financial Performance reports (the immediately preceding three (3) years;</li> </ul> <p>Sources and Uses of Funds (the immediately preceding three (3) years) and the proposal for the coming year.</p>	<p>(a) For Chartered GOCCs, the latest version of their charter;</p> <p>(b) For Non-chartered GOCCs, latest General Information Sheet and brief company background including date of incorporation, history, functions and mandate;</p> <p>(c) Mission/Vision Statements;</p> <p>(d) Organizational Chart;</p> <p>(e) Manual of Corporate Governance;</p> <p>(f) CSR Statement;</p> <p>(g) Balance Scorecard;</p> <p>(h) List of Subsidiaries and Affiliates;</p> <p>(i) Government Corporation Information Sheet (GCIS) as mandated by the GCG in its Memorandum Circular No. 2012-01;</p> <p>(j) Complete listing of the Directors and Officers with attached resume and their membership in Board Committees;</p> <p>(k) Complete Compensation package of all the board members and officers, including travel, representation, transportation and any other form of expenses and allowances;</p> <p>(l) Information on Board Committees and their activities;</p> <p>(m) Attendance record of Directors in Board and Committee Meetings;</p> <p>(n) Any material risk factors and measures taken to manage such risks;</p> <p>(o) Performance Evaluation System (PES);</p> <p>(p) Performance scorecards and strategy maps</p> <p>(q) Audit Observation Memorandum (AOM) issued by COA, and implementation of such audit recommendations, if any;</p> <p>(r) No Gift Policy;</p> <p>(s) Compliance with commitments on servicing loans to, and borrowings guaranteed by, the National Government.</p>

Source: Questionnaire responses from the authorities of the Philippines

It is also worth noting that the state ownership co-ordinating entity GCG established the Corporate Governance Scorecard (CGS) for state-owned enterprises on 8 October 2015 through the issuance of Memorandum Circular No. 2015-07. The CGS was patterned after the ASEAN Corporate Governance Scorecard (ACGS) for publicly listed companies and was benchmarked against the OECD Guidelines on Corporate Governance of SOEs. The CGS assesses the SOEs' governance practices and its level of compliance with the standards on the areas including disclosure and transparency, stakeholder relationships, and responsibilities of the Board. The CGS was first implemented in 2015, assessing the 2014 data of the SOEs to establish baseline data. The checklist on transparency and disclosure is provided in the Box 4.

**Box 4. Checklist on disclosure and transparency in the Corporate Governance Scorecard (CGS) for state-owned enterprises of the Philippines**

1. Quality of Annual Report

Does the SOE's annual report disclose the following items:

- Corporate objectives.
- Financial performance indicators
- Non-financial performance indicators
- Details of whistle-blowing policy
- Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners
- Training and/or continuing education programme attended by each director/commissioner

2. Are the Annual Reports downloadable from the SOE's website?

3. Corporate Governance Confirmation Statement

- Does the Annual Report contain a statement confirming the company's full compliance with the code of corporate governance and where there is non-compliance, identify and explain reasons for each such issue?

4. Timely filing/release of annual/financial reports

- Are the audited annual financial report/statement released within 60 days upon receipt from Commission on Audit?
- Is the annual report released within 90 days from release of audited financial report?
- Is the true and fairness/fair representation of the annual financial statement/reports affirmed by the board of directors/commissioners and/or the relevant officers of the company?

Sources : Questionnaire responses provided by the authorities of the Philippines, Corporate Governance Scorecard (CGS) for GOCCs (2015), [https://gcg.gov.ph/site/public\\_files/gcg1452065476.pdf](https://gcg.gov.ph/site/public_files/gcg1452065476.pdf)

In **Viet Nam**, according to the Decree 81 issued in 2015, SOEs where the state holds majority of chartered capital are required to disclose financial and non-financial information including 5-year strategy for business activity, enterprise objectives and their fulfilment, restructuring process, financial and operating results; governance, ownership and voting structure of the enterprise; remuneration of board members and key executives ; board qualifications and selection processes ; material foreseeable risk factors; financial guarantees and material transactions with related

entities. In practice, SOEs are required to complete and publish the reports both every six months and annually containing the information on their websites before sending them to the CMSC. The deadline for the 6-month report is the end of every third quarter and the deadline for annual report is the end of second quarter of the following year.

However, there is no disclosure for SOEs where the state holds 100% of chartered capital and information on debt obligations of SOEs is not publicly available. At the end of 2018, 70% of SOEs do fully disclose upon regulations in the Decree 81. While Viet Nam continues to face some challenges in promoting strong financial and non-financial disclosure by SOEs such as lack of relevant legal framework and unprofessional board members, the establishment of CMSC is expected to strengthen transparency and disclosure at enterprise level since its mandate is to modernise SOE information disclosure system.

## Internal auditing and external auditing

The SOE Guidelines state that “SOEs’ annual financial statements should be subject to an independent external audit based on high-quality standards. Specific state control procedures do not substitute for an independent external audit”. The robustness and comprehensiveness of SOE auditing and accounting standards, including internal and external audit functions directly impact the quality of financial (and non-financial) reporting in a SOE.

In this respect, a majority the surveyed countries have shown some progress by requiring their SOEs to have an internal audit function (**Cambodia, India, Indonesia, Korea, Pakistan, the Philippines and Viet Nam**) in place or encouraging them to do so through the state holding company’s corporate governance code (**Kazakhstan**). In case of **Korea**, SOEs are required to have the internal audit function report to the state comptroller and such state audit procedures should be supplemented by existing internal and independent external controls.

However, some of the surveyed countries in the region are constrained by weak internal audit and control functions due to the lack of corporatisation. Also, information collection across SOEs and implementation of auditing requirements many times remain challenging due to a lack of IT infrastructure in some SOEs and low quality of financial statements.

In **Malaysia** there are no requirements for SOEs to put in place internal audit functions unless otherwise specified by listing or other relevant requirements. **Cambodia, India and the Philippines** do not systematically mandate that all SOEs subject their financial statements to an independent external audit. They are primarily dependent upon state auditing bodies and other ad-hoc intra-government control to supervise SOEs.

### *National practices*

In **Cambodia**, the financial reports of SOEs are audited by the corresponding line ministry, the Ministry of Economy and Finance as well as the National Audit Authority, which is the supreme audit institution in the country. The National Audit Authority reports directly to the National Assembly with its own budget funded by the national budget. The audits of the National Audit Authority focus on accounting records, management systems, operational controls and programmes of the relevant institutions. The Authority examines the budget process through an ex post audit process in which internal audit auditors of the line ministries are consulted. Reports on government funds should be submitted to the National Assembly on a regular basis.

In **India**, all SOEs are required to establish internal audit departments. Mostly, the internal audit departments report to the finance director of the SOEs. The internal audit reports are put up to the audit committee as an item for discussion. The internal auditors are required to be present at the discussion. The audits are undertaken in accordance with the standards set by the Institute of Chartered Accountants of India. The accounts of SOEs are audited by Statutory Auditors appointed by the Comptroller and the supreme audit institution (CAG). These accounts are also subject to supplementary audit by the CAG which subsequently presents its report to Parliament. CAG appoints an auditor of companies under Companies Act, within a period of 108 days from the commencement of the financial

year, who shall hold office till the conclusion of the annual general meeting. At the same time, Memorandum of Understanding (MOU) signed between the Administrative Ministry and the public enterprises elaborates on targets to be achieved. Based on the results of the MOU performance, Performance Related Pay (PRP) is implemented in SOEs. Further, there are penal provisions in the Companies Act for none or wrong disclosure of information.

In **Indonesia**, internal audit function is mandated in SOEs. Internal auditor reports to CEO and have co-ordination lines to Audit Committee. Internal audit does not have a direct line to Audit Committee because Indonesian corporate governance framework is a two-board system, meaning that Audit Committee is under Board of Commissioner. In addition, an Audit Committee is also mandated in SOEs. Under the Law No. 19/2003 on SOEs and the Law. No. 40/2007 on Limited Corporations, SOEs are obliged to assign independent external auditors to audit their financial statements. SOEs are also audited by Indonesian Supreme Auditors (BPK-Badan Pemeriksa Keuangan) available to the general public. However, the quality of accounting and auditing standards for unlisted or small SOEs varies due to a lack of IT-related infrastructure in them.

In **Kazakhstan**, compliance with Samruk-Kazyna's corporate governance code, while not mandatory, encourages its portfolio companies to establish both an internal audit function and external audit. The Law on Joint Stock Companies also enables SOEs with such a legal form to set up an internal audit function. Samruk Kazyna's portfolio companies are required to be subject to audits by the Accounts Committee for Control over Execution of the State Budget, which is a state comptroller that is responsible for assessing the impact and the use of state funds.

An external auditor should be selected through a competitive bidding process. The Audit Committee should play an important role in the selection process. The criteria for selecting and appointing external audit firms includes : high professional level of employees; work experience both in Kazakhstan and internationally; relevant industry knowledge; and a positive reputation both in Kazakhstan and internationally. The external audit firms should comply with International Standards on Auditing, legislation of the Republic of Kazakhstan in the area of audit, and the Code of Business Ethics of the International Federation of Accountants. The external auditors should be able to efficiently identify weaknesses and formulate recommendations to improve internal controls applied to the preparation of financial reports. The Audit Committee should regularly (at least three times before the auditor's report is signed) meet the external auditor as part of the audit process.

In **Korea**, the majority of SOEs should have a standing or non-standing auditor, or they may have an audit committee within the board. The establishment of an audit committee is mandatory for large-sized SOEs with asset values of more than KRW 2 trillion. Major SOEs also generally have an audit and inspection office as an internal organ under the auditor(s) or audit committee to carry out the internal audit function. There are systematic audits by the state Board of Audit and Inspection which publishes an audit report after reviewing the consolidated documents, including financial statements. The auditors or audit committee should approve the report before it gets published. SOEs are also subject to the external audit by an independent audit firm (see Figure 1).

In **Malaysia**, only SOEs with the status of Government-Linked Company (GLC) that are listed on the national stock exchange are required to have an internal audit function as specified by the Securities Commission and Bursa Malaysia (stock exchange). Auditing and accounting practices and information disclosure (both financial and non-financial) for unlisted SOEs differ depending on the requirements of the relevant controlling stakeholder. As of now, there is no consolidated data that demonstrates details of such differences. The assumption is that SOEs have to submit their reports to various agencies – Parliament, Companies Commission Malaysia, for public on their websites and in accordance with the Securities Commission and Bursa Malaysia.

In **Pakistan**, under the PSC Corporate Governance Rules all PSCs are required to have an internal audit function and their board should establish an Audit Committee of which the members may not include the Chairman of the Board and the company's CEO. The Committee is in charge of examining internal audit reports and selecting the company's external auditor. According to the PSC Corporate Governance Rules all PSCs should subject their accounts to the review of external auditors. Only audit firms that follow the IFAC Code of Ethics and that have been approved by the Institute of Chartered Accountants of Pakistan should be qualified as external auditors. External

auditors are required to rotate every five years according to the SECP regulations to ensure independence. The reports of external auditors should be given to the Board and distributed to all shareholders. PSCs are also subject to a supplementary audit by the Auditor General of Pakistan which is required to report to the Parliament.

**Figure 2. Auditing system for SOEs in Korea**



Source: Questionnaire response submitted from Korean authorities

In the **Philippines**, internal audit function is mandated by a circular of the Department of Budget and Management, which requires that the internal audit function in GOCCs report to their governing boards. It is vested with the jurisdiction to audit and settle all accounts pertaining to the revenue and receipts of expenditures or uses of funds and property under the custody of Government entities and instrumentalities, including GOCCs. However, SOEs are not required to appoint external (independent) auditors. Instead, GOCCs are subject to the authority of the Commission on Audit (COA), the main branch of the government which oversees, examines and assesses the financial operations of the government. Specifically, COA has the power to promulgate rules and regulation for the prevention and disallowance of irregular, unnecessary or excessive, expenditures or use of government funds and properties. In practice, only the 30 largest GOCCs (based on value of assets) are subject to COA's audit on expenditure of public funds.

In **Viet Nam**, according to the Enterprise Law 2005, SOEs should set up an internal audit function. It is required to report directly to the Management Board (CEO) and Supervisory Board nominated by state ownership authorities. The government's accounts are reviewed by supreme audit institution and its report is publicly available. Based on the Law for State Capital Investment and Management, SOEs should be audited by State Audit Agency every two years. Besides, SOEs are required to have an independent audit firm to motivate an annual assessment of financial statements. In fact, some of large SOEs such as Petro of Viet Nam (PVN) and Post and Telecommunication usually hire large audit firms to supervise their annual financial statements or big projects.

## Accounting standards

In **Indonesia, Kazakhstan** and **Pakistan**, the majority of SOEs are required to keep their accounts in accordance with International Financial Reporting Standards (IFRS) while in **Korea** the largest SOEs are required to do so in practice. In **India, Malaysia, the Philippines and Viet Nam**, SOEs are required to respect national accounting standards. In case of **Malaysia**, the variety of different forms of SOEs is an obstacle in pursuing a unified accounting standard.

### *National practices*

**India** relies on national accounting standards adopted by its national accounting body called the Institute of Chartered Accountants of India (ICAI). It is currently considering to adopt international accounting standards. However, the practices are not fully instituted. In **Indonesia**, SOEs are subject to the same accounting and auditing standards as listed companies. Financial disclosure requirements are subject to an accounting standard in line with IFRS. However, there is no unified standard set by the government for governing non-financial disclosure.

In **Kazakhstan**, the Fund Samruk-Kazyna and its Group are required to keep their accounts in accordance with the IFRS and Law on accounting and financial reporting. The Fund, companies and organisations whose share or bonds are traded on a stock exchange should publish on their corporate websites audited annual financial statements as well as financial statements for the first three months, six months and nine months of the reporting period. Financial statements should comply with IFRS, and should include a profit and loss statement, a balance sheet, a cash flow statement and a statement of changes in equity. Annual financial statements should also be independently audited.

In **Korea**, a majority SOEs is required to keep their accounts in accordance with IFRS.

In **Malaysia**, accounting standards depend on legal form (non-listed, listed and statutory) but usually are based on national accounting standards. The Malaysian Accounting Standard Board (MASB), the government agency tasked to develop standard for financial reporting, has several financial reporting standards such as Malaysian Financial Reporting Standards (MFRS), Malaysian Private Entities Reporting Standard (MPERS) and PERS. All listed companies regulated by the Securities Commission and Malaysia's Central Bank including the listed SOEs are required to keep their accounts in accordance with the MFRS.

The accounting and reporting standards applicable in **Pakistan** consists of IFRS issued by the International Accounting Standards Board (IASB) as notified under the Companies Act 2017 and the provisions and directives issued under the Act. Where provisions and directives issued under the Companies Act 2017 differ from the IFRS, the provisions of and directives issued under the Companies Act 2017 are followed. Companies are required to conduct audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan.

In the **Philippines**, GOCCs follow the Government Accounting Manual (GAM) issued by the Commission on Audit. The GAM contains the accounting policies in accordance with the national Public Sector Accounting Standards, as well as the guidelines and procedures to be adopted by the accountants, budget officers, cashiers, property officers, accountable officers and other finance personnel in recording and reporting government financial transactions. It is used to guide the preparation of the financial statements and other reports, and the accomplishment and/or maintenance of various registries, records and forms.

In **Viet Nam**, SOEs are required to be subject to the same accounting and auditing standards as listed companies for annual financial statements since all of SOEs and listed companies are required to be checked by an independent audit firm. However, although SOEs are under supervision of the State Audit Agency, they are not required to make disclosure more rigorously than listed companies. At present, SOEs are required to follow a common account system issued by the Ministry of Finance.

## Aggregate reporting practices

The good practice guidance contained in the SOE Guidelines calls for the state as an owner of commercial enterprises to “develop consistent reporting on SOEs and publish annually an aggregate report on SOEs”. They further call for the use of web-based communications to facilitate access by the general public (See **Chapter VI.C of the OECD SOE Guidelines**).

### Box 5. Key steps to develop SOE disclosure policy and aggregate reporting practices

According to the OECD report on Transparency and Accountability: A Guide for State Ownership (“The Accountability and Transparency Guide”), the state as an owner is recommended to first develop a coherent disclosure policy for its portfolio companies in order to put in place appropriate disclosure and transparency at the SOE level. Policy makers should identify the scope of information to be disclosed; to whom and by what method the information should be disclosed; and the processes for enhancing information quality.

The Accountability and Transparency Guide recommends that governments first review and stocktake the requirements of existing legal and regulatory framework along with actual implementation status at the SOE level. These might differ according to the legal structures of SOEs and be based on different pieces of legislation and regulation, including statutory laws, specific SOE laws as well as general company laws, specific regulations, principles or codes, etc. The Guide says that this will enable an evaluation of actual practice and identification of areas for improvement in the relevant policy framework.

It also recommends that in examining the legal and regulatory framework, the state needs to focus on actual practice of disclosure on material information, which could potentially influence the economic decisions taken by users of this information. This will help avoid unnecessary disclosure requirements and create a level playing field between state-owned enterprises (SOEs) and private sector companies. Lastly, it recommends that the government undertake regulatory impact assessments. In addition to publishing aggregate reports, the ownership entity could consider developing a website, which facilitates the public access to comprehensive information. Web-based communication is an efficient means of ensuring transparency towards the general public and the media. It provides easy access and timely information about the performance of the state sector and can be regularly updated. It can also be used to provide interim reports and the latest news.

*Source* : OECD (2010, 2015)

Regular aggregate reporting on the activities and performance of the SOEs is essential for ensuring transparency and accountability in the SOE sector. Aggregate reporting enables the ownership entity to have a comprehensive picture of the overall performance of SOEs. At the same time, disclosing aggregate information to the public could encourage the ownership entity to pursue reforms and improve company reporting systems. Indeed, a majority of OECD countries and many developing and emerging economies have considered development and implementation of SOE aggregate reporting practices as a starting point for undertaking SOE governance reform (OECD 2015, 2010).

Aggregate reporting should not duplicate but should complement existing reporting requirements, for example, annual reports to the legislature. Some ownership entities could aim at publishing only “partial” aggregate reports, i.e. covering SOEs active in comparable sectors (OECD, 2015).

In summary, the SOE Guidelines recommend that the following information be included in the annual aggregate report:

- A general statement on the state’s ownership policy and information on how the state has implemented this policy (i.e. Information on the organisation of the ownership function as well as an overview of the evolution of SOEs)
- The total value of the state’s portfolio (i.e. information about the size, performance and value of the state sector)
- Aggregate financial information and reporting on changes in SOEs’ boards
- Key financial indicators including turnover, profit, cash flow from operating activities, gross investment, return on equity, equity/asset ratio and dividends
- The methods used to aggregate data
- Information on individual reporting on the most significant SOEs
- Voting structures and stakeholder relations where there are non-Government shareholders
- Risks and related party transactions

### *National practices on aggregate reporting*

While all participating countries have established some form of mechanisms for disclosing information on their SOEs, only some of them provide such information in aggregated and consistent manner (see Table 3). Aggregate reporting practices are in general less prevalent in countries that have a relatively more decentralised state ownership structure under which a multitude of line ministries exercise ownership of SOEs within their particular sector, with an absence or weak degree of co-ordination for state ownership. In the countries with aggregate reporting all commercially operating SOEs disclose financial information on a regular basis, but the extent to which material non-financial information (e.g. non-financial corporate objectives, risks and guarantees) is disclosed differs across countries.

### *Annual aggregate reporting*

**India, Indonesia** and the **Philippines** which have achieved some degree of centralisation in state ownership function produce an annual aggregate report on SOEs at state level.

- In **India**, the Department of Public Enterprises (DPE) under the Ministry of Heavy Industries and Public Enterprises (the nodal agency of all SOEs in India) is mandated to publish an Annual Public Enterprises Survey which provides information on financial situation and activities CPSEs. The report is annually presented to the Parliament. Each year, the Parliamentary Committee on SOEs selects a few SOEs based on the comments of the CAG and prepares reports to be presented to the Parliament. However, government has not yet developed a web-based disclosure tool for reporting SOE information to the general public. While individual SOEs have their own website wherein they provide access to their annual report and make available other related information, there is no dedicated website which publishes detailed information on individual SOEs. The DPE publishes summarized information on individual SOEs on its website based on the Annual Public Enterprises Survey.
- In **Indonesia**, Ministry of SOEs produces a report called “Government Agency Performance Accountability Report” (LAKIP- Laporan Akuntabilitas Kinerja Instansi Pemerintah) on an annual basis. The report covers both financial and non-financial aspects of all the 115 SOEs in Indonesia. The 2018 annual report includes various information including: implementation of the state ownership policy; financial performance and value of the SOE sector; total employment in SOEs; and the implementation of public policy objectives. However, board composition and/or remuneration and reporting on individual SOEs are not included in this report. The 2018 report is available on the Ministry of SOEs website in both Bahasa and English. There are dedicated websites for each SOE and the links for each SOE are available on the website of the Ministry of SOEs.

- In the **Philippines**, the Governance Commission for GOCCs (GCG) as the main arm of the Philippines government produces an annual aggregate report on the activities and performance of SOEs. The GCG prepares an annual report on the performance of GOCCs, which is submitted to the President and to the Congress. The results of GOCC operations and their financial standings are consolidated in the Annual Report, usually composed of the sections including : highlight of the achievements in the GOCC sector; an executive summary of the GOCC operations; report on the assets, liabilities, net worth, net income, dividends and other GOCC remittances, financial support from the national government (subsidies, equities, net lending); and consolidated public sector financial position and contributions of the GOCCs. It also has an integrated reporting system which details SOEs' financial and non-financial information on online portal in a consolidated manner. In 2017, the government also adopted the system of the Global Reporting Initiative (GRI) on sustainable reporting in the SOE sector.

### *Online inventory functionally equivalent to an aggregate report*

- In **Korea**, while the Ministry of Economy and Finance (MEF) , the responsible ministry on SOEs, does not produce an annual aggregate report on SOEs per se on the entire SOE sector or sizable portfolio of SOEs, the ALIO disclosure system – a consolidated online information system – can be considered as functionally equivalent. All the SOEs are required to disclose information at the company level on the ALIO website (<http://www.alio.go.kr> ) since 2005. The MEF provides a set of guidelines regarding what kind of information should be disclosed and how to implement disclosure system at company level. Each SOE uploads the data online as guided by the MEF. In this process, the MEF is in charge of reviewing all the data. The ALIO system includes a wide range of information on individual SOEs. It presents important statistics such as financial information, the number of employees, recruitment, average remuneration level of executives (CEO included) and employees, benefits, liabilities and so on. The information on SOEs published on ALIO is available to the public. The website link for reporting corruptions is also available on the ALIO website.

The MEF monitors all information registered in ALIO system and can impose penalties on SOEs in case of negligent or imprecise information disclosure. The scale of penalty is from 0.1 to 5 and the penalty points feed into annual performance evaluation for SOEs and quasi-governmental institutions undertaken by the MEF. If penalty points exceed 20 in a given fiscal year, the MEF can require applicable SOEs a plan on how to prevent recurrence and provide them with training program. If penalty points exceed 40 in a given fiscal year, they are listed as “negligent SOEs” in information disclosure on the ALIO system for 3 months. At the same time, the MEF also can order them to post such information on their companies' website for the same period of time as the ALIO. As for the companies that are listed as “excellent SOEs” in information disclosure with no penalty points for three consecutive years, they will be exempt from disclosure duty for once in the future.

### *Aggregate reporting on a limited portfolio of SOEs*

- **Kazakhstan** has adopted aggregate reporting on a limited portfolio of SOEs. A state holding company Samruk-Kazyna publishes an annual report on the performance of its portfolio in accordance with the provisions of the Corporate Governance Code of the Fund and best disclosure practices.

### *No aggregate reporting*

**Cambodia, Malaysia, Pakistan** and **Viet Nam** do not have any form of regular aggregate reporting in place at state level. SOE disclosure of both financial and non-financial information is limited and public information is scattered and outdated except for a few large equitised SOEs. The amount and quality of information (both financial and non-financial) vary depending on the responsible line ministry or controlling stakeholder. As for Malaysia, a report of

aggregate financial position of major companies owned by the Malaysian government issued by the Treasury can be found on the Treasury's website. The information on the website includes the aggregate revenues, development expenditure, current and overall balance of those companies.

**Table 3. Aggregate reporting practices by countries**

	Nature of reporting			Coverage				
	Aggregate reporting	Online disclosure system	Implementation of state ownership policy	Financial performance and value	Total employment in SOEs	Public policy objective	Board composition and/or remuneration of board members and key executives	Reporting on individual SOEs
Cambodia	-	-	-	-	-	-	-	-
India	●	-	●	●	●	●	●	●
Indonesia	●	-	●	●	●	●	-	-
Kazakhstan	● (on a limited portfolio of SOEs)	-	-	●	●	-	●	-
Korea		●	●	●	●	●	●	●
Malaysia	-	-	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-	-	-
Philippines	●	●	●	●	●	●	●	●
Viet Nam	-	-	-	-	-	-	-	-

Source: Questionnaire responses from national authorities

# 4 Conclusions and key policy recommendations

Most of the countries in the region have made important progress regarding establishing legal and regulatory frameworks to improve accountability and performance of SOEs. This, in turn has brought their national practices more in line with internationally recognised good practices. To begin with, most of the reviewed countries have implemented some degree of policy co-ordination to further centralise the state ownership function through the creation of a central coordinating body or a holding company to oversee a portfolio of large SOEs.

The governments have introduced or strengthened requirements for disclosure and transparency in the SOE sector. Changes have included, for example, new requirements concerning the role of audit committees in SOEs, clarifications regarding the role of the state in selecting audit firms and the introduction of aggregate reporting on the entire SOE portfolio. The size and operations of a given company often determine the frequency and quality of reporting. In a sub-set of countries disclosure requirements are more stringent for SOEs based on additional guidance or requirements set out in applicable laws.

However, important challenges remain. The laws that concern the legal form of SOEs and provide the framework for the governance, ownership arrangement and operation of SOEs are often complex – and in some cases outright contradictory. Reforms to streamline complex sets of laws – as well as SOE governance frameworks more generally – should be a priority for many of the countries in the region.

Other challenges to good governance of SOEs have been indicated by national authorities participating in the Network. They include politically motivated ownership interference leading to unclear lines of responsibility and a lack of accountability and efficiency losses in the corporate operations. The top management is often closely linked to the national executive powers, and in some cases important corporate decisions are made directly by the government bypassing the corporate decision chain. A widespread example is the case where politicians bypass SOEs' boards of directors to directly appoint CEOs.

It must be also recognised that, while all participating countries have implemented mechanisms for disclosing financial and non-financial information concerning their SOEs, this is mostly done either on the individual SOEs' websites or via a central web site. Few governments provide such information in an aggregated and consistent manner. Policy makers are invited to consider the following points when developing transparency and disclosure measures in the SOE sector.

- **Clear separation between state ownership function and regulation** is essential for ensuring a level playing field with the private sector. One of the starting points could be publishing clear ownership policies that provide rationale for state ownership and define the respective responsibilities of the state bodies involved in its implementation could provide and enhance a framework for prioritising SOE objectives. Centralisation of the ownership function can help reinforce and mobilise relevant competencies as it requires organising pools of experts on key matters, such as financial reporting or board nomination.
- **Enhancing autonomy of corporate boards and executive managers.** Corporate governance arrangements of SOEs in Asia should further evolve so that respective roles of the ownership entity, SOE boards of directors and executive management are be clarified and clearly delineated.

- **Stronger monitoring of related party transactions in SOEs.** While the surveyed Asian jurisdictions have taken different approaches to identify and monitor related party transactions (RPT) in SOEs, only a few pay attention to the role of the audit committee and the board of directors to curb abusive RPTs. Recurrent RPTs could be taken to the shareholders for approval.
- **Clear financial and non-financial objectives.** An inadequate regulatory inspection of non-financial reporting practices often reduces such reporting to a "box-ticking" exercise. In the absence of clarity around the financial and non-financial objectives that each SOE is expected to perform, a meaningful performance monitoring is not possible.

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