



Co-hosted by:

The Russian Federal Commission for the Securities Market

The Russian Supreme Arbitrazh Court

**The Third meeting of the Russian Corporate Governance Roundtable on
The Role of Disclosure in Strengthening Corporate Governance and Accountability**

AGENDA

**Moscow, Russian Federation
15-16 November 2000**

*Location: Marriott-Tverskaya Hotel
1st Tverskaya-Yamskaya Street 34 - 125047 Moscow*

Co-sponsored by:

United States Agency for International Development

The Centre for International Private Enterprise

The following companies have kindly supported social events:

*Chase Manhattan Bank International, Ernst & Young (CIS), KPMG
PricewaterhouseCoopers, Russian Trading System, Standard&Poor's,*

Day 1 – Wednesday, 15 November 2000

Registration

8:30 – 9:00

Introductory session

9:00 – 9:40

Welcoming remarks

- ◆ *Mr. Igor Kostikov*, Chairman of the Federal Commission for the Securities Market (FCSM)
- ◆ *Mr. Veniamin Yakovlev*, Chairman, Supreme Arbitrazh Court of Russia
- ◆ *Mr. Mikhail Motorin*, Deputy Minister, Ministry of Finance, Russia
- ◆ *Mr. Michael Carter*, Country Director for Russia, Resident Representative in Moscow, World Bank
- ◆ *Ms. Sally Shelton-Colby*, Deputy Secretary General, OECD

9:40 – 10:30

Recent developments in corporate governance and disclosure

Chairperson: *Ms. Sally Shelton-Colby*, Deputy Secretary General, OECD

Setting the context

- ◆ Disclosure: a corporate governance tool that really works?
Mr. Richard Frederick, Principal Administrator, OECD

Key note address

- ◆ Issues in corporate governance and disclosure in Russia, *Mr. Dmitry Glazunov*, Commissioner, Federal Commission for the Securities Market (FCSM), Russia
- ◆ OPEN discussion

10:30 – 11:00

Coffee break

Session I

Financial Reporting and Transparency

Chairperson: *Mr. Igor Kostikov*, Chairman of the FCSM

11:00 – 13:00

Panel discussion:

- ◆ Accounting reform issues in Russia by *Mr. Mikhail Motorin*, Deputy Minister, Ministry of Finance
- ◆ Financial Transparency and Corporate Governance by *Mr. Andrey Sharonov*, Deputy Minister, Ministry of Economic Development and Trade
- ◆ Financial Reporting and Transparency by *Mr. Cliff Isaak*, Financial Management Specialist, World Bank Moscow Office
- ◆ The relationship between corporate governance, financial reporting, and accountability by *Ms. Mary Keegan*, Head, Global Corporate Reporting Group, PricewaterhouseCoopers
- ◆ OPEN discussion

13:00 – 14:30

Lunch

Session II

Financial Disclosure and Audit

Chairperson: *Mr. Harry Broadman*, Lead Economist – Russia Operations, World Bank

14:30 – 16:00

Panel discussion:

- ◆ Audit reform in Russia by *Mr. Andrey Petrov*, Deputy Minister, Ministry of Finance
- ◆ Developing the audit profession: “lessons from the 1998 financial crisis, external Auditors perspective” by *Mr. Thomas Kelley*, Partner, Arthur Andersen
- ◆ The auditor’s responsibility with respect to internal accounting controls, illegal acts and related party transactions by *Mr. Bob Strahota*, Assistant Director, USSEC Office of International Affairs
- ◆ OPEN discussion

16:00 – 16:30

Coffee break

Session III

Accounting and Audit Practices

Chairperson: *Mr. Richard Ranken*, Head, Private Enterprise Partnership of the Central and Eastern Europe Department, IFC

16:30 – 18:00

Panel discussion on application of standards by companies

- ◆ *Mr. Alexander Korsik*, Senior Vice-President, OAO Sibneft
- ◆ *Mr. Valery Goldin*, Vice President of International Relations, Director of Board, Vimplecom
- ◆ A Case Study of Applying Accounting and Auditing Requirements, *Ms. Gail Buyske*, Senior Banker and Country Coordinator, EBRD’s financial sector activities in Russia
- ◆ OPEN discussion

18:15 – 21:00

Welcoming Cocktail /Dinner

Day 2 – Thursday, 16 November 2000

Session IV

Non-financial disclosure and accountability

Chairperson: *Mr. John Plender*, President, Pension Investor Research Consultants (PIRC)

9:00. – 11:00

Panel discussion:

- ◆ Enforcement Problems Relating to Existing Information Disclosure Legislative Requirements, by *Ms. Tatyana Medvedeva*, Senior Advisor, Centre for Capital Market Development Foundation; Expert, FCSM and *Mr. Alexei Timofeyev*, Adviser, Center for Capital Market Development Foundation
- ◆ Investor expectations for disclosure of non-financial information, *Mr. Dimitry Vasiliev*, Executive Director, Institute of Corporate Law and Corporate Governance, Chairman, Board of the Investors Protection Association
- ◆ Expectations of investors for disclosure of affiliated-party information, *Mr. David Damant*, President, European Federation of Investment Analysts
- ◆ Problems in defining affiliated party transactions: catching them all, *Mr. Geoffrey Townsend*, Partner, KPMG
- ◆ OECD trends in non-financial disclosure, *Mr. Peter Dey*, Chairman, Morgan Stanley
- ◆ OPEN discussion

11:00 – 11:30

Coffee break

Session V

The Role of Local Institutions: Disclosure Channels

Chairperson: *Mr. Florin Coseraru*, Executive, Global Business Development, London Stock Exchange

11:30. – 13:00

Panel discussion:

- ◆ Role of the exchanges in the disclosure of non-financials, *Mr. Sergey Rodionov*, Vice-President, Russian Trading System (RTS)
- ◆ Role of the exchanges in setting corporate governance standards, *Mr. Mikhail Laufer* Member of Executive Board – Director Equities&Bonds Market, Moscow Interbank Currency Exchange (MICEX)
- ◆ Role of self-regulatory organizations in improving channels for Information Disclosure, *Mr. Ivan Tyrishkin*, Chairman of Executive Board, National Association of Securities Market Participants (NAUFOR)
- ◆ On information disclosure limits after bringing a bankruptcy action against a joint stock company, *Mr. Oleg Naumov*, Chief of the Analytical Department for Court Practice, Russian Supreme Arbitrazh Court
- ◆ OPEN discussion

13:00 – 14:30

Lunch

Session VI**The role of boards of directors in overseeing disclosure****Chairperson:** *Mr. Ira Millstein*, Senior Partner, Weil, Gotshal and Manges

14:30 – 16:30

The responsibilities of the board and relevance of audit committees

Panel discussion:

- ◆ Practices of Non-Executive Directors in Russian Companies, *Mr. Oleg Fedorov*, Member of the Management Board, National Association of Securities Market Participants (NAUFOR)
- ◆ Practical difficulties in introducing audit committees in a Russian company, *Mr. Alexander Semeniaka*, Member of the Management Board, Director of the Long-Term Financing and Securities Department, OAO Gazprom; *Mr. Alexander Kolesnikov*, Head of Investor Relations Department, RAO Unified Energy System
- ◆ Case study, *Mr. Stephan DuCharme*, Former Member of the Board, Director for Corporate Development, Finance and Control, Alfa Group, Moscow
- ◆ OPEN discussion

16:30 – 17:00

Coffee break**Concluding session****Corporate governance initiatives related to the Roundtable****Chairperson:** *Mr. Rainer Geiger*, Deputy Director, DAFFE, OECD

17:00 – 18:30

- ◆ Website on corporate governance in Russia by *Mr. Alexander Ikonnikov*, Executive Director, Russian Investor Protection Association
- ◆ Grassroots initiatives in Russian regions, *Mr. Stephen Deane*, Senior Program Officer and Head of the Eurasia Division, CIPE
- ◆ International Forum for Accountancy Development initiative, *Ms. Mary Keegan*, Head, Global Corporate Reporting Group, PricewaterhouseCoopers
- ◆ Eurasian Accounting Initiative, *Mr. John Seong*, Private Sector Development Officer, USAID
- ◆ Future work of the Russian Roundtable, *Ms. Fianna Jesover*, Project Manager, OECD
 - White Paper on Corporate Governance
 - Analytical/empirical needs
 - Location, date, and topic of next meeting
- ◆ Concluding remarks by *Mr. Rainer Geiger*, Deputy Director, DAFFE, OECD

End of Roundtable

18:30-20:00

Wrap-up cocktail

NOTE TO THE AGENDA

Background

The Russian Corporate Governance Roundtable is a senior group of decision-makers that meets semi-annually to discuss developments in corporate governance in Russia. The Roundtable effort is undertaken in close partnership with the World Bank and other bilateral and multilateral institutions; it uses the OECD Corporate Governance Principles as a conceptual framework. Developing better corporate governance is a process, and changes do not take place over night. The 3rd meeting of the Roundtable is part of an ongoing dialogue that began with a first meeting in June 1999. Its overall objective is to explore issues in corporate governance relevant to the Russian Federation and develop recommendations to improve corporate governance practices. This process aims to facilitate and support debate within and between the interested constituencies with the ultimate goal of helping to identify implementation strategies and an agenda for action.

This 3rd meeting will allow Roundtable participants to go into greater depth on an important aspect of corporate governance -- information disclosure and its role in strengthening corporate accountability. The need for greater transparency is an issue that the OECD promotes not only in relation to corporate governance, but also more broadly in such areas as global and public sector governance.

The main objectives of this discussion on transparency and disclosure are to:

- Explore the role of disclosure in corporate governance and its contribution to improving the investment climate in Russia;
- Improve the understanding of the practices in this area and consider impediments to the implementation of better disclosure standards in Russia; and thereby
- Help guide future reform efforts in Russia, identifying key areas for improvement both at the regulatory level and in private practice.

Annotations and issues for discussion

This section of the agenda provides general background to facilitate discussion.

Introduction:

The first part of the meeting will provide an overview of the recent developments in corporate governance and disclosure globally and in Russia. It can be agreed that while better disclosure could not have prevented the 1998 financial crisis, it might have given policy makers and the markets sufficient warning to develop an appropriate response. This seems to be born out by recent policy initiatives designed to improve transparency in enterprise performance and governance practices.

Issues: What has been the traditional view of disclosure and transparency in Russia? Did disclosure play a role in the 1998 financial crisis? Has there been increasing acceptance and use of disclosure as a tool for enhancing governance and protecting investors? The Securities and Exchange Commission seems to have embraced the concept of disclosure based regulation - what have been some of the broader trends in the use of disclosure as a regulatory tool?

Session I: Financial reporting and transparency

Accounting is the basic language of business and financial reporting. It is the primary means by which information on company performance is communicated to market participants. However, the information that is disclosed to investors is only as good as the standards under which information is compiled. There is general agreement that standards need to be of sufficiently high quality to fully inform the investment community regarding their investment decisions. In Russia, this is particularly important in view of the system of non-cash payments and barter transactions. Yet, even where high quality standards exist, their implementation may prove difficult in practice.

This is because proper application of standards implies sufficient training and expertise of accountants, and the existence of institutional structures that improve and maintain the quality of the profession.

The public and private sectors have complementary responsibilities with respect to standard setting and the application of accounting standards. National standard setting bodies (in many countries, key regulatory organisations) usually determine accounting standards while the accounting profession and companies must apply standards when putting together financial statements. In addition, there must be proper incentives to ensure high quality reporting. One of the key incentives is the existence of a large and sophisticated investment community. Finally, accounting standards are increasingly moving towards some level of harmonisation. Investors, in particular, tend to agree that the use of international standards that allow for comparisons between companies of different countries is desirable.

Issues: What is the relationship between corporate governance, financial reporting, and accountability? Why are better accounting standards needed? Can better quality financial reporting reduce non-cash payment? What specific type of information appears to be lacking or is poorly reported? How have the regulators and accounting profession responded to develop improved standards, respectively? What are the respective roles of the public and private sectors?

Session II: Financial disclosure and audit

The other key element in the disclosure of financial information is the financial audit. The auditor plays an important role in verifying accounting information and in providing some level of assurance to the investment community regarding the veracity of financial information. Audit practices vary depending upon the country in which the audit is conducted. As a consequence the quality of the assurance that investors receive also varies.

Policy makers may specify the need to apply specific standards and/or may specify rules for ensuring auditor independence. The profession itself is understood to have a responsibility towards the public interest in the conduct of the audit. One of the key objectives of this session is to explore the extent to which the statutory audit provides needed assurances and what could be done to improve the level of confidence in financial statements.

Issues: What kinds of audit standards exist and how are they applied? What rules exist to ensure the independence of the auditor and the auditor's ethical conduct? How do these rules work in practice? What kinds of improvements are being made both in standards and in their implementation? To what extent are international audit standards of relevance and value in Russia? What has been the approach to regulating the profession? Have changes been introduced, why and to what effect? What should the role of the public sector be in encouraging high quality audit, and what is the role of the profession?

Session III: Accounting and audit practices

Financial transparency can change the way a business is managed, bringing with it accountability as an engine to drive improvements in efficiency and growth. In order to improve their transparency, Russian companies will need to establish adequate financial reporting systems. Competition on the capital market will also compel them to provide a fair representation of their business in financial statements. Some large companies are compiling statements according to internationally accepted standards of accounting and audit to satisfy the expectations of investors and at the same time Russian standards for regulatory bodies. This has perpetuated some problems with the implementation of standards at the company level and jeopardised the confidence of investors.

Issues: To what extent are international accounting and audit standards of relevance and value in Russia? What is the experience of companies in applying these standards? Why have changes, if any, been introduced in some companies? What has been their impact? ? What kinds of improvements are being made to ensure better quality reporting at the company-level?

Session IV: Non-financial disclosure and accountability

Accounting statements cover only part of the disclosure obligation of the company to the investment community and to regulators. Additional disclosure on ownership structures, voting rights, the identity of management and the board of directors, the remuneration of management, the frequency and timing of disclosure, and many other issues provide users with valuable information to assess a company's governance. All of these issues are important in Russia, where widespread expropriation by controlling agents has allegedly taken place.

Issues: To what extent are disclosures made regarding capital structures, major ownership of companies and voting rights? To what extent is information on boards provided, in particular, data on directors, and key executives and their remuneration? Do companies disclose sufficient information on affiliated parties and risks? Are there further areas that require consideration such as disclosure of take-over defences, company environmental and ethical policies or policies regarding stakeholders? What are the expectations from investors?

Session V: The role of local institutions: disclosure channels

Local sources of capital such as banking institutions as well as regulatory and professional bodies or stock exchanges may require the non-financial information noted above. These institutions can also play an important role in monitoring compliance with disclosure standards and improving the channels for disclosure. In Russia, exchanges are actively seeking ways to create incentives for companies to improve disclosure through their listing requirements. Self-regulatory organisations are also trying to disseminate and facilitate access to information.

Issues: What are the respective roles of the Exchanges and self-regulatory bodies in improving disclosure of non-financial information? How can these private institutions help improve the channels for disseminating relevant information to users in a timely and cost-efficient manner? What is the role of the accounting/audit profession in this respect?

Session VI: Boards of directors and their role in overseeing disclosure

In most countries, the board of directors is considered to have the overall responsibility for communications. Many investors look to the board to provide assurances that monitoring systems are in place, they function correctly and appropriate accounting, audit and disclosure standards are applied. The responsibility of the board in overseeing disclosure is gaining increasing acceptance.

Changes in board structures and procedures--the establishment of audit committees and/or reconsideration of the relationship between the board and the internal and external auditors--may be required in order for boards to better fulfil their obligations. In some countries, audit committees serve to provide further assurances to investors regarding systems of control and the veracity of information. While there appears to be a trend towards the introduction of audit committees in some Russian companies, the structure and responsibilities of audit committees appear to differ, in particular as regards the ability of committees to make objective, independent judgements.

Issues: Have boards traditionally been held responsible for overseeing disclosure in companies or was this responsibility primarily in the hands of the executive? Are perceptions changing regarding the board's responsibility in this area? Have there been changes in the relationship between the board, internal and external auditors and the latter's compliance function? What are recent developments with respect to the introduction of audit committees in Russian companies? What are some of the results/problems associated with their introduction on a practical level? What is the frequency of non-executive directors?

Concluding session:

In view of the Roundtable's role to identify future policy and technical assistance needs in the public and private sectors, a number of initiatives are being developed. Some of them will be briefly presented in the concluding session, including:

- ◆ The development of a special website on corporate governance in Russia that will provide an electronic venue to share prominent research, working papers, studies and information on the latest regulatory and practical developments in the area;
- ◆ The organisation of seminars in Russian regions to help disseminate the findings of the Roundtable to relevant non-governmental private organisations;
- ◆ The establishment of a dialogue between the International Forum for Accountancy Development (IFAD) and key players in the accounting/audit profession to explore designing an action plan on disclosure issues;
- ◆ The launching of negotiations between the Investor Responsibility Task Force and major Russian corporations on commitments to high corporate governance standards, which will be reported back to the Roundtable.

One of the most important final outputs of the Roundtable work programme will be the development of the White Paper on corporate governance in Russia. The concept will be briefly presented, a first discussion of the document itself will take place the following morning among the core group of Roundtable participants,. This will be followed by a discussion on the future work of the Roundtable and a brief summary by the Chairman on key points during the two-day discussion.

Issues: What should be the date of the 4th meeting of the Roundtable? Where should it take place, i.e. Moscow or another Russian region? What should be the next focus, the responsibility of the board or role of stakeholders? Are there any specific analytical/empirical needs for future work?