

Summary of the Russian Corporate Governance Roundtable Task Force Consultative Meetings

As a follow-up to the meeting in Moscow last October on implementation and enforcement of disclosure rules, the Russian Ministry of Economic Development and Trade as well as the Federal Commission for the Securities Market requested the OECD to assist them in developing (I) a roadmap to support Russia's transition to international financial reporting standards and (II) policy options to limit abusive related party transactions and improve disclosure of beneficial ownership and control.

To carry-out this request, the OECD Secretariat set-up two task forces to help prepare the documents. The task forces met back-to-back in Paris on 25-26 March 2004 to discuss the scope and structure of the work as well as the content of the proposed final reports. The discussion followed the issues papers that were prepared by the OECD Secretariat. Two background papers were presented as input to each of the Task Forces, one assessed the Russian policy framework and the second provided a summary of lessons that could be learned from the experience of OECD countries. Below is a brief overview of the discussions.

25 March, Task Force I

The purpose of the Task Force (hereafter TFI) consultation was to assess the experience in introducing international financial reporting standards (IFRS) in Russia; draw lessons from recent experience of European countries; and invite responses to the issues paper that would lead to the drafting of a roadmap for introducing IFRS in Russia. TFI is not expected to engage in an accounting reform project but to provide useful guidance to policy-makers and relevant stakeholders in their current efforts to form a consensus and set priorities for introducing IFRS. The roadmap will also include a discussion of costs/benefits of the suggested policy choices.

The discussion focused on policy and not technical aspects of the transition, including implementation and enforcement issues. The morning discussion reviewed the bottlenecks encountered by previous initiatives to introduce IFRS as well as the new institutions engaged in advancing transition. It was agreed that the TFI's work should focus on a narrow group of companies in order to be successful. The afternoon debate was oriented toward the design of an actual roadmap. Participants discussed the ways that IFRS could be introduced in Russia, including the sequencing of transition, the elements of an effective regulatory framework as well as enforcement and implementation mechanisms. A key conclusion was that the endorsement and standard-setting processes should be viewed as two separate issues.

Timetable: The TFI agreed to send additional feedback in writing to the OECD Secretariat to assist in the drafting process. The draft roadmap will be sent electronically to the TFI end of April for comments. In view of the strong interest in co-ordinating our approach with a broader group of decision-makers, the TFI felt that it would be useful to hold an additional meeting to discuss the second draft of the roadmap. This meeting will take place in Moscow with key decision-makers at the end of June. The final draft of the roadmap will be discussed with the broader Roundtable group end of October 2004.

26 March, Task Force II

The purpose of the Task Force II (here after TFII) consultation was to assess the present legal, regulatory and institutional framework for related party transactions and beneficial ownership and control in Russia, to discuss relevant developments in OECD countries and to invite input on the issues papers that would lead to the drafting of policy options for further analysis. The existence of abusive related party transactions is often the result of weaknesses in the corporate governance system and related areas, including the disclosure and access to information about ultimate beneficial ownership and control

structures. Participants were requested to consider what changes may be needed in order to improve the corporate governance system, for further analysis of their costs and benefits.

The morning session focused on related party transactions. Participants addressed the criteria for defining related party transactions and the main areas where the legal and regulatory framework could be improved to curb abusive transactions. The discussion then focused on the duties and responsibilities for disclosing, monitoring and managing related party transactions, with particular attention to the critical role of the board of directors. Participants agreed that effective implementation and enforcement of these requirements will depend largely upon the roles of the institutions responsible for regulatory oversight and the ability of shareholders or the company to seek legal redress.

The afternoon session addressed beneficial ownership and control. The discussion began on two inter-related issues, a definition of what constitutes control and when and how it should be disclosed and monitored, as well as a definition of beneficial ownership. There was also extensive discussion on responsibility for disclosing beneficial ownership and control among the beneficial owners, intermediaries, the company and the role of regulatory oversight. Participants discussed the benefits and risks of disclosing ultimate ownership. With respect to oversight, the issue of institutional capacity in order to carry-out effective investigations is an important factor to consider.

Timetable: The TFI agreed to send additional feedback in writing to the OECD Secretariat to assist in the drafting process. A draft policy options paper will be circulated electronically to TFII by end of May for comments. A second draft will be circulated electronically during the summer. The final version of the policy options paper will be discussed end of October 2004 in Moscow with the broader Roundtable group.