



# Transparency and disclosure measures for state-owned enterprises (SOEs): Stocktaking of national practices

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## LIST OF ABBREVIATIONS

<b>AGM</b>	<i>Annual General Meeting</i>
<b>CFE</b>	<i>Comisión Federal de Electricidad / Federal Electricity Commission (Mexico)</i>
<b>CPSE</b>	Central Public Sector Enterprise (India)
<b>DEST</b>	Departamento de Coordenação e Governança das Empresas Estatais / Department of Coordination and Corporate Governance of State Enterprises (Brazil)
<b>DGEP</b>	Dirección General de Empresas Públicas / General Director for State-Owned Enterprises (Paraguay)
<b>DPE</b>	Department of Public Enterprises (India)
<b>EU</b>	European Union
<b>GCC</b>	Governance Coordination Centre (Lithuania)
<b>GCG</b>	Governance Commission for Government-Owned and –Controlled Corporations (Philippines)
<b>GLC</b>	Government-Linked Company (Malaysia)
<b>GRI</b>	Global Reporting Initiative
<b>GOCC</b>	Government-Owned or – Controlled Corporation (Philippines)
<b>ICRS</b>	Integrated Corporate Reporting System (ICRS) (Philippines)
<b>IFRS</b>	International Financial Reporting Standards
<b>LGTAIP</b>	Ley Federal de Transparencia y Acceso a la Informacion Publica Gubernamental/Federal Law of Transparency and Access to Public Government Information (Mexico)
<b>MTMC</b>	Ministry of Transparency, Monitoring and Control (Brazil)
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PEMEX</b>	<i>Petróleos Mexicanos / Mexican Oil (Mexico)</i>
<b>SFP</b>	<i>Secretaría de la Función Pública / Office of the Comptroller General (Mexico)</i>
<b>SHCP</b>	<i>Secretaría de Hacienda y Crédito Público / Ministry of Public Credit and Finance (Mexico)</i>
<b>SIGEN</b>	<i>Sindicatura General de la Nación / Office of the Comptroller General (Argentina)</i>
<b>SOE</b>	State-owned enterprise

## ABOUT THIS REPORT

This report provides an overview of national practices to enhance disclosure and implement aggregate reporting practices by examining relevant legislation, policies and practices applicable to state-owned enterprises (SOEs) in OECD countries and developing and emerging economies. It was prepared by Seungju Baek and Chung-a Park of the Corporate Affairs Division of the OECD Directorate for Financial and Enterprise Affairs, and received inputs from Hans Christiansen and Korin Kane. It was developed to serve as a discussion paper for the meeting of the *Global Knowledge Sharing Network on Corporate Governance of State-Owned Enterprises* on 7-8 June in Mexico City. It is based on desktop research supplemented with voluntary responses to the questions on SOE transparency and disclosure measures in a questionnaire on “*Anti-Corruption and Business Integrity Measures for State-Owned Enterprises*” developed by the OECD Secretariat and circulated to the countries participating in the meeting. Questionnaire responses were discussed in “peer review” mode in the context of the meeting. Twelve countries (Argentina, Brazil, India, Korea, Lithuania, Malaysia, Mexico, Peru, Paraguay, Philippines, Sweden and Vietnam) have submitted questionnaire responses.

The report is structured as follows. Part I elaborates on the importance of developing and implementing disclosure measures including aggregate reporting practices within SOE sector, providing a rationale for conducting this research. It also provides a brief overview of internationally recommended practices for ownership entities in the area of SOE disclosure and transparency – focusing on benefits associated with aggregate reporting practices, introducing key relevant policy tenets of the newly revised *OECD Guidelines on Corporate Governance of State-Owned Enterprises* (“SOE Guidelines”) and the *OECD Accountability and Transparency Guide for State Ownership* (“Transparency Guide”).

Part II takes stock of policy, legal and regulatory measures for developing and implementing disclosure measures including aggregate reporting practices within the SOE sectors in the surveyed countries. It first provides a brief overview of general trends in SOE transparency and disclosure measures in the world. This is followed by a stocktaking of relevant legal and regulatory frameworks including SOE-specific obligations on disclosure and reporting; the control environment covering the internal and external audit function; implementation of aggregate reporting practices; and SOE reporting on stakeholder relations. This part of the report also identifies good practices that could serve as references and inspirations to policy makers and practitioners in SOE sector who wish to improve transparency in SOEs and implement aggregate reporting practices.

Part III highlights key policy drivers and common challenges to ensuring an effective legal and regulatory framework for implementing disclosure and aggregate reporting practices by SOEs. The issues include centralisation of the state ownership function; good practices for aggregate reporting and quality of SOE financial reporting; robust audit systems; and listing and corporatisation practices. This report has been prepared as part of the OECD’s efforts to support strengthened disclosure of financial and non-financial information by both SOEs and by the state as owner.

## TABLE OF CONTENTS

LIST OF ABBREVIATIONS .....	2
ABOUT THIS REPORT .....	3
I. RATIONALE FOR RESEARCH AND INTERNATIONALLY RECOMMENDED PRACTICES ON SOE TRANSPARENCY AND DISCLOSURE.....	5
1. Introduction.....	5
1.1. Why focus on transparency and disclosure .....	5
2. The primacy of aggregate reporting .....	7
2.1. Elaborating the OECD recommendation.....	7
2.2. Key steps to develop SOE disclosure policy and aggregate reporting practices .....	7
3. Methodology .....	8
II. STOCKTAKING OF LEGAL AND REGULATORY FRAMEWORK ON TRANSPARENCY AND DISCLOSURE OF SOES: AGGREGATE REPORTING PRACTICES .....	9
1. General trends on SOE disclosure and overview of practices by the surveyed countries .....	9
1.1 Disclosure and reporting obligations placed on SOEs .....	9
1.2 Control environment: Internal and external audit function .....	10
2. Aggregate reporting practices and financial and non-financial information disclosed by SOEs.....	13
Reporting on stakeholder relations.....	16
III. KEY TAKEAWAYS AND POLICY ISSUES FOR CONSIDERATION .....	18
Centralisation of the ownership function .....	18
Good practices for aggregate reporting and quality of SOE financial reporting .....	18
Robust audit system .....	19
Listing and corporatisation .....	19
BIBLIOGRAPHY .....	20

### Tables

Table 1.	Select SOE Guidelines' provisions related to anti-corruption and business integrity .....	6
Table 2.	Legislations relevant to transparency and disclosure in the SOE sector .....	11
Table 3.	Aggregate reporting on state-owned enterprises by country .....	16

### Boxes

Box 1.	National practices on aggregate reporting: Korea, Philippines and Mauritius .....	14
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# I. RATIONALE FOR RESEARCH AND INTERNATIONALLY RECOMMENDED PRACTICES ON SOE TRANSPARENCY AND DISCLOSURE

## 1. Introduction

### 1.1. *Why focus on transparency and disclosure*

*Rationale for developing and implementing transparency and accountability measures: Benefits associated with SOE information disclosure*

Ensuring a high quality of transparency and accountability is the very basis of any sound corporate governance regime. Information disclosure and higher standards of accountability in SOEs, when accompanied by other governance reforms such as centralisation of state ownership, listing, board improvements and financial restructuring – can contribute to improved efficiency and performance of SOEs. Information disclosure including both financial and non-financial data is essential for the government, so it can be an effective owner; the Parliament to evaluate the performance of the state as an owner; the media to raise awareness on SOE efficiency; and taxpayers and the general public to have a comprehensive picture of SOE performance.

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. SOEs are subject to varying degrees of enforcement and restrictions depending on their regulatory environment as well as the sector in which they operate. Nevertheless, there are key messages and lessons on SOE governance reform, both general and focused on information disclosure and accountability, which countries can garner from the internationally-agreed standard *OECD Guidelines on Corporate Governance of State-Owned Enterprises* (“SOE Guidelines”).

In 2015, the SOE Guidelines, which had served as a global benchmark for countries introducing governance reforms in the state-owned sector since their inception in 2005, were revised. A large number of emerging economies participated in the revision process and made significant 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 (see **Chapter VI.A**). The Guidelines recommends that countries increase their efforts to improve transparency and accountability within the SOE sector: on the state of the financial structure and conditions in order to contribute to the evaluation of the SOEs; and of activities that have an impact on the economic performance of SOEs themselves as well as the national economy.

The Guidelines provide recommendations specific to ameliorating transparency and disclosure at both the company level and the level of the state, to enhance accountability for SOE performance (Table 1). As for financial disclosure, the SOE Guidelines also call for SOEs to keep accounts in accordance with internationally-agreed accounting standards and to subject their financial statements to an independent external audit, based on relevant international auditing standards. Effective internal audit procedures should be in place, overseen by an audit committee within the board of directors or its functional equivalent (see **Chapter VI.B**).

**Table 1. Select SOE Guidelines' provisions on SOE transparency and disclosure measures**

Annotations relevant to recommendation from the Guidelines
<p><b><u>Chapter VI.A. Reporting high-quality financial and non-financial information on SOEs</u></b></p> <p>All SOEs should disclose financial and non-financial information, and large and listed ones should do so according to high quality internationally recognised standards. This implies that SOE board members sign financial reports and that CEOs and CFOs certify that these reports in all material respects appropriately and fairly present the operations and financial condition of the SOE.</p> <p>To the extent possible, the relevant authorities should carry out a cost-benefit analysis to determine which SOEs should be submitted to high quality internationally recognised standards. This analysis should consider that demanding disclosure requirements are both an incentive and a means for the board and management to perform their duties professionally.</p> <p>A high level of disclosure is also valuable for SOEs pursuing important public policy objectives. It is particularly important when they have a significant impact on the state budget, on the risks carried by the state, or when they have a more global societal impact. In the EU, for example, companies that are entitled to state subsidies for carrying out services of general economic interest are required to keep separate accounts for these activities.</p> <p>SOEs should face at least the same disclosure requirements as listed companies. Disclosure requirements should not compromise essential corporate confidentiality and should not put SOEs at a disadvantage in relation to private competitors.</p> <p>SOEs should report on their financial and operating results, non-financial information, remuneration policies, related party transactions, governance structures and governance policies. SOEs should disclose whether they follow any code of corporate governance and, if so, indicate which one. In the disclosure of financial and non-financial performance, it is considered good practice to adhere to internationally accepted reporting standards.</p> <p>Regarding disclosure of remuneration of board members and key executives, it is viewed as good practice to carry this out on an individual basis. The information should include termination and retirement provisions, as well as any specific benefits or in kind remuneration provided to board members.</p>
<p><b><u>Chapter VI. B. Ensuring independent external audit</u></b></p> <p>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.</p> <p>In the interest of the general public, SOEs should be as transparent as publicly traded corporations. Regardless of their legal status and even if they are not listed, all SOEs should report according to best practice accounting and auditing standards.</p> <p>In practice, SOEs are not necessarily required to be audited by external, independent auditors. This is often due to specific state audit and control systems that are sometimes considered sufficient to ensure the quality and comprehensiveness of accounting information.</p> <p>These financial controls are typically performed by specialised state or "supreme" audit entities, which may inspect both SOEs and the ownership entity. In many cases they also attend board meetings and are often reporting directly to the legislature on the performance of SOEs. However, these specific controls are designed to monitor the use of public funds and budget resources, rather than the operations of the SOE as a whole.</p>
<p><b><u>Chapter VI. C. Establishing consistent reporting systems to monitor SOE performance</u></b></p> <p>The ownership entity should develop aggregate reporting that covers all SOEs and make it a key disclosure tool directed to the general public, the legislature and the media. This reporting should be developed in a way that allows all readers to obtain a clear view of the overall performance and evolution of the SOEs. In addition, aggregate reporting is also instrumental for the ownership entity in deepening its understanding of SOE performance and in clarifying its own policy.</p> <p>The aggregate reporting should result in an annual aggregate report issued by the state. This aggregate report should primarily focus on financial performance and the value of the SOEs, but should also include information on performance related to key non-financial indicators. It should at least provide an indication of the total value of the state's portfolio. It should also include a general statement on the state's ownership policy and information on how the state has implemented this policy. Information on the organisation of the ownership function should also be provided, as well as an overview of the evolution of SOEs, aggregate financial information and reporting on changes in SOEs' boards. The aggregate report should provide key financial indicators including turnover, profit, cash flow from operating activities, gross investment, return on equity, equity/asset ratio and dividends.</p> <p>The ownership entity should strengthen disclosure on stakeholder relations by having both a clear policy and developing aggregate disclosure to the general public. Information should also be provided on the methods used to aggregate data.</p>

Source: OECD (2015a), Guidelines on Corporate Governance of State-Owned Enterprises, OECD, Paris

## **2. The primacy of aggregate reporting**

### ***2.1. Elaborating the OECD recommendation***

Regular aggregate reporting on the activities and performance of the SOEs is central to ensuring transparency and accountability in the SOE sector. Aggregate reporting allows for a comprehensive picture of the overall performance of SOEs and evolution of the SOEs. According to the SOE Guidelines, the process of developing aggregate reports is instrumental for the ownership entity in improving company reporting systems and consistency in information as well as deepening its understanding of SOE performance and clarifying its own policy. Also, disclosing aggregate information to the public encourages the ownership entity to communicate its activities and pursue reforms. Indeed, development and implementation of SOE aggregate reporting practices has been considered as a key starting point for SOE corporate governance reform in a majority of OECD countries and developing and emerging economies (OECD 2015a, 2015b, 2010; World Bank 2014a, 2014b).

The SOE Guidelines therefore requires the state as an owner of commercial enterprises to prepare periodic national reports on the state of the SOEs and its changes over time, publish annually an aggregate report that covers all SOEs, and make it a key disclosure tool directed to the relevant stakeholders including the general public, the legislature and the media (See **Chapter VI.C**). In particular, the SOE Guidelines indicate that this aggregate report should primarily focus on financial performance and the value of the SOEs, but should also include information on performance related to key non-financial indicators (OECD, 2015a). 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

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, 2015a).

### ***2.2. 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 should first develop a coherent

disclosure policy for its portfolio companies 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. Building on this analysis, the existing framework could be enhanced reflecting key policy orientations recommended in the SOE Guidelines.

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.

Developing aggregate reports entails specific processes within the ownership entity to collect and synthesise information on SOEs. It also involves active consultation and coordination among different parts of the ownership entity and with the SOEs and other government departments concerned, which might be time-consuming and could be challenging.

However, 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.

In addition to publishing aggregate reports, the ownership entity could consider developing a website, which facilitates the public access to information. Such websites can provide comprehensive information mentioned above, including the information on the organisation of the ownership function and the general ownership policy, as well as information about the evolution, size, value of the state sector and performance. Web-based communication is a powerful 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 the latest news and interim reports.

### **3. Methodology**

The information presented in the remainder of this report was collected in the following context. National information was collected in preparation of the *Global Knowledge Sharing Network on Corporate Governance of SOEs* in June 2016 in Mexico City through a questionnaire exercise. This was supplemented with additional research covering practices in the examined countries. The report has been enriched by information obtained via consultations with experts, SOE directors and senior executives, as well as policy makers from a number of non-OECD economies, within the framework of the Network. The OECD will use this stocktaking report to continue to promote good governance of SOEs through policy dialogue with OECD and non-OECD countries.

## II. STOCKTAKING OF LEGAL AND REGULATORY FRAMEWORK ON TRANSPARENCY AND DISCLOSURE OF SOES: AGGREGATE REPORTING PRACTICES

### 1. General trends on SOE disclosure and overview of practices by the surveyed countries

This section takes stock of policy, legal and regulatory measures for enhancing transparency and disclosure practices of SOEs including aggregate reporting practices within the state-owned enterprise (SOE) sectors of the represented countries that have contributed to the OECD questionnaire on SOE transparency and disclosure practices.

In the past few decades, many countries have taken a number of steps over the years to improve the efficiency and performance of state-owned enterprises. There has been progress in terms of developing improved information disclosure by SOEs with an accelerated corporatisation process of SOEs and application of adequate accounting standards. An increasing number of countries are subjecting their SOE's financial statements to independent external audit in accordance with international standards. More and more governments prepare and submit annual aggregate reports by SOEs and are establishing information systems through which they obtain financial as well as non-financial information from the SOEs and other decentralised entities.

However, many economically significant SOEs in the world still have not yet put in place comprehensive legal and regulatory framework for enhancing disclosure and transparency nor being systematically subject to high-quality international accounting and auditing standards. Also, many governments are not equipped with the system for detecting fiscal risk and contingent liabilities linked to SOEs. Likewise, the 12 surveyed countries differ in terms of their degree of efforts and progress to develop and implement their SOE corporate disclosure and transparency. Some of the reviewed countries lack internal audit function for SOEs and their financial statements are not subject to an independent external audit, which could potentially compromise quality of disclosed information. Also, a majority of the represented countries do not produce aggregate reporting which could hamper accountability of the state as an owner and prevent the public from having a comprehensive picture of SOE performance.

#### *1.1 Disclosure and reporting obligations placed on SOEs*

All the participating countries in the survey except for **Viet Nam** and **Malaysia** have a general policy framework for promoting transparency and disclosure in SOE sector. In **Argentina**, the Decree 1172 stipulates that all the SOEs provide financial information to the public. However, in practice, only listed SOEs are obliged to obey IFRS standards and disclose financial information such as financial budgets and objectives of the SOEs. SOEs produce an annual report that contains all aspects of performance and the Ministry of Economy and Public Finance consolidates the information that is presented to the legislature. The country is currently developing a portal which shall contain the relevant information of all the SOEs to facilitate the public access to the information.

In **Brazil**, under the Access to Information Law (law 12527/2011) and Decree 7724 which regulates based on that Law, public institutions including the SOEs are required to actively disclose a list of information such as information about its internal hierarchy and structure, its public procurement processes and the agenda of the authorities, among many others. This legislation also requires SOEs and other public institutions to establish channels for receiving information requests from the public, which shall be treated and responded within the timeframe indicated in that law. In **India**, all SOEs are required to adhere to the disclosure norms prescribed by the government and have a Central Vigilance Officer reporting to the Central Vigilance Commission. Central SOEs (CPSEs) are monitored and evaluated following negotiation

of a performance agreement between the SOE and its administrative ministry. This has been a useful means to ensuring accountability of CPSE.

In **Mexico**, the two largest SOEs in the country - PEMEX and CFE- are subject to a special regime concerning the public servants and disclosure of commercial information. The General Transparency and Access to Public Information Law aims to establish principles, rules and procedures to guarantee the right of access to information in possession of public enterprises. In addition, in May 2015, Federal Law of Transparency and Access to Public Government Information (LGTAIP) was established, which provides greater transparency obligations for public entities including SOEs.

SOEs in the **Philippines** are subject to disclosure requirements 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.

Companies in **Lithuania** – including SOEs – can choose to prepare their financial statements in accordance with either International Financial Reporting Standards (IFRS) or Business Accounting Standards (domestic standards). National accounting standards need to be in accordance with the EU acquis and the IFRS to ensure the quality of SOE corporate disclosure in the country. Identifying the material differences between the two standards goes beyond the scope of this report, but previous OECD work has pointed to differences in valuation methods.

**Paraguay** has a new Access to Information Law which also covers the SOEs but no specifics for SOEs have been implemented. The National Council of Public Enterprises has also been working on the development of a Code of Corporate Governance for SOEs. The government is considering to make the Code mandatory by enacting a draft Law on Public Companies. In **Peru**, SOEs are not subject to the same accounting and auditing standards as listed companies although SOEs are mandated to have their financial statements audited. The Management Directive of the ownership entity FONAFE stipulates transparency policy for the SOEs, requiring them to abide by guidelines on SOEs' internal control system and submit annual and quarterly reports on financial performance, operation and budget evaluation to FONAFE.

**Sweden** and **Korea** have the arguably most elaborate and explicit regulatory framework on SOE transparency and disclosure among the surveyed countries. Sweden's state ownership policy requires that SOEs act responsibly with respect to business integrity. According to its Guidelines for External Reporting of State-Owned Enterprises, SOEs are obliged to issue the annual report, interim reports, the corporate governance report, the statement on internal control and the sustainability report. Such reporting by SOEs are required to be as transparent as the reporting of listed companies.

Under the Official Information Disclosure Act, all public institutions including all SOEs in **Korea** are required to report and disclose corporate information to the general public through the internet-based portal called ALIO (All Public Information in One) inventory system (see [www.alio.go.kr](http://www.alio.go.kr)). The information includes number of employees, information on executives, financial statement, profit and loss statement, income and expense statement, tax, audit report, external evaluation report among many others. Failure to disclose and false disclosure result in heavy penalties for the relevant SOEs.

## ***1.2 Control environment: Internal and external audit function***

Most of the surveyed countries do not subject their SOEs to the same accounting and auditing standards as listed companies. They often have weak internal audit and control functions and lack guidance on SOE corporate disclosure. The audit of SOEs' financial statements is many times conducted by the supreme audit institution or the comptroller general, rather than by an independent external auditor.

In **India**, SOEs' financial statements are subject to both a constitutional audit by the supreme audit institution (CAG) and statutory audits by an external auditor. The audits are undertaken in accordance with the standards set by the Institute of Chartered Accountants of India. However, SOEs in India are not required to establish an internal audit function.

**Table 2. Legislation relevant to transparency and disclosure in the SOE sector**

	<b>Legal framework for enhancing transparency and disclosure in the SOE sector</b>
<b>Argentina</b>	<b>Decree 1172</b> . It requires that all the SOEs provide financial information to the public. However, in practice, only listed SOEs are obliged to obey IFRS standards and disclose financial information such as financial budgets and objectives of the SOEs.
<b>Brazil</b>	<b>Access to Information Law (law 12527/2011) and Decree 7724</b> . Under the legislation, public institutions including the SOEs are required to actively disclose a list of information such as information about its internal hierarchy and structure, its public procurement processes and the agenda of the authorities, among many others. This also requires SOEs and other public institutions to establish communication channels to facilitate the public access to financial and non-financial information on SOEs.
<b>India</b>	<b>Companies Act 2013</b> . This law mandates that annual reports of companies should contain a separate section on Corporate Governance with details of compliance. SOEs are required to submit quarterly compliance report to their administrative ministries. It requires enhanced disclosures with respect to Board's Reports, Prospectus, AGM notice, Annual return, director's responsibility statement, Audit Committee constitution, Vigil mechanism etc. CPSEs are required to obtain a certificate from auditors/company secretary regarding compliance with these guidelines.
<b>Korea</b>	<b>Official Information Disclosure Act (1998)</b> . This law requires that information on the operation of the government agencies, SOEs, and public institutions be disclosed.
<b>Lithuania</b>	<b>Law on Accounting</b> . This Law requires that listed parent companies and SOEs prepare consolidated financial statements according to either International Accounting Standards (IFRS) or Business Accounting Standards (national standards). Annual accounts of SOEs are public available and disclosed in the national Register of Legal Entities. <b>Transparency guidelines</b> . These are based on "comply or explain" principle. Information required to be disclosed serve for preparation of aggregated reports. Financial statements and reports are available on SOEs website or in particular cases on website of ownership entity.
<b>Malaysia</b>	No policy or legal measures specific to SOEs
<b>Mexico</b>	<b>The General Transparency and Access to Public Information Law</b> . This Law regulates the content of the article 6 of the Constitution in terms of transparency and access to information. Its purpose is to establish principles, rules and procedures to guarantee the right of access to information in possession of public enterprises, as well as autonomous bodies, trusts and public funds, and any other person or organization who receives or spend public resources or perform acts of authority.  <b>Federal Law of Transparency and Access to Public Government Information (LGTAIP)</b> . It seeks to ensure the public access to information related to federal entities  <b>Special regime of PEMEX and CFE</b> . The two largest SOEs are required to disclose and submit the reports on commercial, financial, administrative, operative, economic information, legal and risks management information, reports to the stock exchange, reports to the Congress, public version of business plan, corporative information (proceedings and decisions of the Board) and audit committee reports.
<b>Paraguay</b>	<b>New Access to Information Law</b> . However, no specifics for SOEs have been developed nor implemented. In addition, the National Council of Public Enterprises has been working on the development and implementation of a Code of Corporate Governance for SOEs. The government is considering to make the Code mandatory by enacting a draft Law on Public Companies.
<b>Peru</b>	<b>Management Directive of the state ownership entity FONAFE</b> . This requires SOEs to submit reports on financial, budget and operational evaluation to FONAFE.
<b>Philippines</b>	<b>Section 25 of R.A. 10149 and specifically in GCG Memorandum Circular 2011-07</b> . It states general disclosure requirements of the GOCCs under GCG's jurisdiction. It provides that all GOCCs shall maintain a website and post both financial and non-financial information of the GOCC for public access. Other relevant provisions include Section 43 of GCG M.C. 2012-07, Section 45 on Mandatory Reports and Section 46 on other reportorial requirements.
<b>Sweden</b>	<b>Guidelines for External Reporting of SOEs</b> . The Guidelines require that SOEs produce interim and annual reports on corporate governance, internal control and sustainability of the companies. The reporting by SOEs is required to be as transparent as that of listed companies.
<b>Viet Nam</b>	No policy or legal measures specific to SOEs

Source: OECD Questionnaire responses by countries, World Bank (2014a).

In **Argentina** too, not all SOEs are mandated to have their own internal auditing function. The country has an internal control system of the state executive branch. As such, internal audit units are required to report to the Office of the Comptroller General (SIGEN) which conducts SOE performance control within the executive branch. Similarly, in **Paraguay, Peru, Philippines** and **Mexico**, internal audit function is mandated as part of the internal control system of the state executive branch. Specifically:

- In Philippines, it 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.
- In Mexico, internal control bodies report to the Office of the Comptroller General (SFP). The two of the largest SOEs - CFE, PEMEX have internal audit functions that directly report to their corresponding boards of directors.
- In Paraguay, there is no legal mandate to establish offices of internal audits in public enterprises. However, almost all SOEs in the country have an internal audit department that reports to the main authority of the entity. They are subject to an ultimate oversight by either the Audit Committee or the General Audit Executive.
- In Peru, internal audits of SOEs are conducted by the state internal control body (Órgano de Control Institucional under the Ministry of Economy and Finance), which reports to the Comptroller General.

In **Lithuania**, the establishment of an internal audit is only mandatory for statutory state enterprises and SOEs are subject to either International Accounting Standards (IFRS) or domestic accounting standards which are of varying qualities.

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.

In **Viet Nam**, there is no consistent disclosure practice by non-listed SOEs in place and little information on SOEs is publicly available. According Enterprise Law 2005, SOEs are mandated to 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).

In **Brazil**, SOEs are required to establish an internal audit function which directly reports to the board and to the audit committee, if in place. When an SOE does not have a board of directors or equivalent body in place, the internal audit unit shall be directly subordinated to the highest authority of the company and delegation to another authority is not admitted. SOEs' internal audit function including the nomination and dismissal of the head of the internal audit unit is ultimately supervised by the Ministry of Transparency, Monitoring and Control (MTMC). The state audit office undertakes financial, operational and investigative audits of some SOEs. Also, in December 2015, the MTMC published guidance to support SOEs in implementing internal integrity programmes. The Commission of Inter-sectoral Corporate Governance and Property Administration (CGPAR) has recently approved a Resolution to require that all SOEs have Audit Committees that report to the board (Resolution N. 12 of May 2016). Meanwhile, it is currently mandatory for SOEs to have a Fiscal Council, a governance body with the responsibility to monitor management's activities and the financial statements to report to shareholders. The head of the internal audit unit may report directly to the Counsel on the implementation of aspects pointed out in the reports and the Counsel

may request the inclusion of special audits in the Plan of Activities of Internal Audit according to the Resolution.

**Sweden** has established SOE internal control systems that are very similar to the one in the private corporate sector. All SOEs are subject to the same accounting and auditing standards as listed companies. The auditing of SOEs is carried out by independent auditors according to internal auditing standards and The National Audit Office can do performance audits of SOEs when the state is a majority shareholder. SOEs are obliged to follow the Swedish Code for corporate governance of listed companies. If an SOE does not have an internal audit function it is required to annually evaluate the need for such a function. All SOEs in the country have boards and the internal audit reports directly to the board. Larger and many medium size SOEs have audit committees but if not, the board as a whole is required to conduct the duties of the audit committee. All committee members should be board members and a majority of the committee members are also mandated to be independent of the company and its management. In **Korea**, the internal audit function is mandated in SOEs, and it is monitored by, and it reports directly to the board and the audit committee.

## **2. Aggregate reporting practices and financial and non-financial information disclosed by SOEs**

Only India, Lithuania, Paraguay, the Philippines and Sweden out of 12 surveyed countries produce an annual aggregate report on SOEs at state level. Compared with the other countries (Argentina, Brazil, Malaysia, Mexico, Peru and Viet Nam), it is worth noting that these countries have more centralised (or coordinated) state ownership, which usually facilitates the process of aggregate reporting. Among the countries with aggregate reporting all commercially operating SOEs disclose financial information on regular basis, but the extent to which material non-financial information (e.g. non-financial corporate objectives, risks and guarantees) is disclosed differs significantly across countries.

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) publishes an Annual Public Enterprises Survey with information on financial and non-financial performance of CPSEs which is presented to Parliament each year. SOEs in India disclose financial as well as non-financial information including composition of Board of Directors, balance sheet, Audit committee and its term of reference. They also include terms of reference of Remuneration Committee, Remuneration policy, Resolution passed in AGMs, details of compliance, details of non-compliance by the company, penalties, structures imposed on the company, quarterly results, newspaper wherein results normally published, website, Audit qualifications etc. However, government has not yet developed web-based disclosure tool for reporting SOE information.

In the **Philippines**, the Governance Commission for GOCCs as the main arm of the Philippines government produces an annual aggregate report on the activities and performance of SOEs. It also has an integrated reporting system which details SOEs' financial and non-financial information on online portal in a consolidated manner (Box 1). This web-based communication is in accordance with internationally recommended practices on corporate governance. In 2017, the government also aims to adopt the system of the Global Reporting Initiative (GRI) on sustainable reporting in the SOE sector.

In **Paraguay**, the Ministry of Finance prepares a consolidated annual report that includes information related to financial, accounting and budget execution of all SOEs. However, it does not contain detailed information on remuneration of board members, key executives and composition of the board. Such data are publicly accessible through the institutional web pages.

Similarly, in **Lithuania**, the Governance Coordination Centre (GCC) produces an annual aggregate report on SOEs' financial and non-financial performance on an online portal. The annual reports include SOE Good Corporate Governance Index, analysis of remuneration of SOE boards of directors, executives

and special obligations; and are also published in English in the Governance Coordination Centre website at [ykc.turtas.lt](http://ykc.turtas.lt).

The authorities of **Sweden** produce annual aggregate reports that include all the information on SOEs' financial and non-financial performance, the remuneration of board members and key executives, and information on board composition. SOEs are also mandated to publish sustainability reports according to the GRI standard. From 1 July 2016, all large and medium sized companies are required to carry out sustainability reporting that includes reporting on their anti-corruption work, following the relevant changes in the European Union (EU) accounting directive.

#### **Box 1. National practices on aggregate reporting: Korea, Philippines and Mauritius**

**Korea.** As part of comprehensive SOE reform efforts and to facilitate public access to overall SOE performance, an internet-based portal was set-up in 2005. This system (known by its acronym as the ALIO; see [www.alio.go.kr](http://www.alio.go.kr)) serves as an online repository of both financial and non-financial information of all public institutions in Korea, including SOEs. SOEs are (and other public institutions) are mandated to disclose operational data according to 34 standardized categories of financial and non-financial information (initially only 20 items had to be disclosed). Such aggregate disclosure is supported by Official Information Disclosure Act, which became effective in January 1998, requiring that information on the operation of the government agencies, SOEs, and public institutions be disclosed.

**Philippines.** The Governance Commission of Philippines has initiated the development of the Integrated Reporting System (ICRS) through a single online web portal. Its main objective are to: assist the State in the exercise of its ownership rights in the GOCC Sector through the provision of up-to-date, complete and relevant information; streamline the various reportorial requirements for GOCCs; and promote greater transparency and timely access to relevant information on the GOCC Sector. The ICRS has two main components. First, is the GOCC Monitoring System (GMS), which pertains to the financial information about the GAGMOCC, such as but not limited to financial statements and corporate operating budgets; and second GOCC Leadership Management System (GLMS), which pertains to non-financial information regarding the GOCC's profile, such as but is not limited to the latest version of the charter, performance scorecards and organizational structures. It also includes information on incumbent Appointive Directors. Since the Implementation of the ICRS is relatively new for the GOCC sector, most of the GOCCs delay in the submission of the information required by the ICRS. As practiced by some GOCCs, instead of uploading quarterly financial reports, most are submitting annually on a per request basis. Thus, in order to remedy the delays, part of the GCG Memorandum Circular 2014-02, included the compliance with the deadline in the ICRS submissions as an additional Good Governance Condition for purposes of releasing their Performance Based Bonus (PBB).

**Mauritius.** To address the problem of inconsistent reporting of annual financial statements and dispersed model of SOE ownership, the governance unit in the Prime Minister's Office has launched a web-based reporting portal entitled the Parastatal Information Management System (PIMS). PIMS mandates SOEs to electronically submit financial and non-financial information including revenue, costs, profit, assets, liabilities and number of employees. In addition, the system allows for uploading of periodic financial statements (annual and quarterly reports) in a PDF format. However, launching of the system has been delayed as it has not yet completely replaced existing reporting requirements. Moreover, access to the system by Line Ministries has been restricted by the Ministries of Finance and the Prime Minister's Office, discouraging SOEs that report to Line Ministries to comply.

*Source* : World Bank (2014a); OECD questionnaire responses by the national authorities of the Philippines

In **Korea**, while the state does not produce aggregate report per se on the entire SOE sector or sizable portfolio of SOEs, it does provide an online information inventory of SOEs. All the SOEs are required to disclose information at the company level on the ALIO website. According to the questionnaire response by the Ministry of Strategy and Finance of Korea, the ALIO system is comprehensive and reliable enough to ensure transparency of SOEs in absence of production of the annual aggregate report by the state. The

ALIO system periodically provides the latest corporate information on all SOEs including a summary of important SOE sector statistics (Box 1).

As already mentioned, aggregate reporting practices are less prevalent in other countries that have a relatively more decentralised state ownership structure under which line ministries exercise ownership of SOEs within their particular sector, with other institutions playing a coordinating function on governance issues. For instance, in **Mexico**, SOEs' objectives are established by their respective sectoral line ministries, while budgetary information is gathered by the Ministry of Finance and Public Credit. Under this decentralised system, SOE information is not aggregated on an annual basis in the country. However, SOE reporting is included in aggregate form in the Federal Public Treasury Report prepared by the Ministry of Public Credit and Finance (SHCP). The reports dedicate a special section to PEMEX and CFE. Similarly in **Argentina**, SOE reporting is included in the annual state budget reporting to the legislature. **Peru**'s FONAFE prepares a corporate management report every quarter to be published on FONAFE's website. The report is not comprehensive but includes financial and operational information.

In **Malaysia** and **Viet Nam**, the government does not disclose annual information on the activities and performance of the SOE sector overall. 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. Improved public disclosure – in terms of volume and quality – could arguably bring substantial benefits.

**Table 3. Aggregate reporting practices by countries that have contributed to the OECD questionnaire**

	Aggregate reporting	Online inventory of SOEs	Same rules as listed companies	Implementation of state ownership policy	Financial performance and value	Total employment in SOEs	Public policy objective	Board composition and remuneration of board members and key executives	Reporting on individual SOEs, stakeholders
Argentina									
Brazil									
India	○			○	○	○	○	○	○
Korea		○	○	○	○	○	○	○	○
Lithuania		○	○	○	○	○	○	○	○
Malaysia									
Mexico									
Paraguay	○	○		○	○	○	○		
Peru									
Philippines	○	○		○	○	○	○	○	
Sweden	○	○	○	○	○	○	○	○	○
Viet Nam									

Source: Adapted from OECD factbook (2015b), OECD questionnaire responses by countries.

### *Reporting on stakeholder relations*

State-owned enterprises operate their business across broad spectrums of community of stakeholders. Therefore the OECD recommends that state ownership practices should fully recognise SOEs' responsibilities towards stakeholders and request that SOEs report on their relations with stakeholders. However, only **India, Korea, Philippines** and **Sweden** among the surveyed countries have some regulatory framework in place that requires SOEs to report on their stakeholders relations. Specifically:

- In India, the Companies Act 2013 envisages that every company shall constitute stakeholders relationship committee to consider and resolve the grievances of security holders of the company.
- In Philippines, the Governance Commission requires all SOEs under its jurisdiction, to conduct within their corporations a “Stakeholder Satisfaction Survey”, the result of which is reported to the Commission as part of their Scorecards. However, there is no definite criteria to determine which SOEs shall conduct the stakeholder satisfaction survey. Under the jurisdiction of GCG, all SOEs are mandated to conduct the survey.
- The Guidelines for External Reporting of SOEs in Sweden require the SOEs to publish sustainability reports concerning all stakeholders.

- According to the Official Information Disclosure Act, listed SOEs in Korea disclose and report transactional information to stakeholders in their annual reports. Other public institutions, including non-listed SOEs do not have any obligation to do so.

In some other countries, in the absence of formal requirements, some SOEs nevertheless engage in such practices. For example, in **Lithuania**, according to Corporate Governance Code, only listed state-owned companies are required to disclose information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community. The non-binding Transparency Guidelines also require report on stakeholder relations and this requirement apply to all SOEs. In other countries, SOEs are not required to report on their stakeholder relations in their annual report nor in a specific stakeholder report. In **Paraguay**, most public companies produce annual management reports and they refer to stakeholders. These reports are not addressed to a specific sector interest groups, but those interested in general.

### III. KEY TAKEAWAYS AND POLICY ISSUES FOR CONSIDERATION

*The key challenge is ensuring an effective legal and regulatory framework for implementing disclosure and aggregate reporting practices by state-owned enterprises*

SOE disclosure and reporting practices differ significantly among the countries that are reviewed in this report. The diversity reflects the institutional arrangements for SOE reporting within member countries, the different legislative, regulatory or policy requirements of the countries, and whether the system of SOE reporting is incentivised.

Governments often lack effective legal and regulatory frameworks for public disclosure of information including aggregate reporting practices. In particular, governments with decentralised ownership function have resulted in both weak enforcement of public corporate disclosure and poor quality of data. Another important question is the degree of corporatisation of government business activities and the extent to which commercial and non-commercial activities are structurally separated. Often, SOEs that are not fully corporatised are subject to weak disclosure standards as they are not subject to the same auditing, accounting and reporting requirements as private incorporated companies – or because the government does not impose similarly rigorous requirements. Incorporating public entities having a commercial activity and operating in competitive, open markets, as separate legal entities enhances transparency. Indeed, countries with more degree of corporatisation are more likely to have disclosure requirements and practices at the company level.

This indicates that disclosure improvements should take place alongside other equally important reforms, such as harmonising SOEs' legal forms, corporatising those that undertake primarily commercial activities and improving regulatory framework on anti-corruption and business integrity (OECD, 2016a). According to these findings, policy makers could consider following issues when developing and implementing transparency and disclosure measures of SOEs.

#### ***Centralisation of the ownership function***

The SOE Guidelines posit that centralisation of the ownership function can be a strong driver in the development of aggregate reporting on state ownership. 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.

#### ***Good practices for aggregate reporting and quality of SOE financial reporting***

Less than half of the surveyed countries produce an annual aggregate report on SOEs at state level. In addition, among the countries with aggregate reporting, the publication coverage of material as well as non-financial information varies significantly across countries. As the SOE Guidelines points out, governments can significantly improve transparency and quality of financial reporting by SOEs through annual publication of an aggregate report that covers all SOEs. Moreover, good practice calls for the use of web-based communications to facilitate access by the general public. This reporting could be developed in a way that provides the public and the media with a comprehensive view of the overall financial performance and evolution of the SOEs including turnover, profit, cash flow from operating activities, gross investment, return on equity, equity/asset ratio and dividends and changes in SOE boards.

### ***Robust audit system***

In many cases, the quality and credibility of SOEs' disclosure is limited by lack of strong internal control systems which are important for monitoring compliance with laws and regulations and reporting any irregularities to the board. Moreover, in some cases SOEs' financial statements are not subject to an independent external audit, which is another important tool for detecting irregular transactions. SOEs are often subject to different audits, including external audits and state audits, of which respective roles are not always clearly defined and which in some cases overlap with each other. Therefore, establishing a robust audit system could require a reconsideration of the respective roles and focus of internal, state and external audits as well as SOEs' degree of corporatisation and their independence from the general government.

### ***Listing and corporatisation***

Listed SOEs are more likely to respect high standards of disclosure and have enhanced transparency as they are subject to stock market listing (and maintenance) requirements and securities laws. Their accounting standards are required to follow internationally agreed methods and their financial statements are subject to external audit. Wholly-owned SOEs could potentially have weaker incentives to monitor or disclose incomplete information due to lack of separation of accounts. For example, a recent study found that in the case of China and India the listing of SOEs in stock markets has improved transparency, bringing those SOEs' corporate governance practices in line with national rules and international standards (OECD, 2016b). However, the study also observed that the act of listing alone does not guarantee that SOEs will behave like a private firm in terms of transparency practices. Different corporate players are often exposed to varying degrees of enforcement.

Even where listing of an SOE is not feasible, policy makers could streamline government businesses either in terms of corporate form or the organisation of value chains. Harmonisation of corporate forms could start with SOEs that pursue largely commercial objectives. Governments could aim to approximate the legal and regulatory frameworks of SOEs to those applying to private companies. This means developing similar disclosure requirements as well as external and internal controls to ensure that its management act in the best interests of the company and its owners.

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