Good afternoon, ladies and gentlemen. I am Kathy Milsom, President and CEO of Technical Standards and Safety in Canada, and formerly President and CEO of Canada Lands Company, a Canadian state-owned enterprise. I would like to extend my appreciation to the OECD, the World Bank, the European Union, the Global Corporate Governance Forum, the Federal Service for Financial Markets of Russia, and the Ministry for Economic Development and Trade of Russia, for this opportunity to be here. I hope that my presentation will help facilitate informed decision making.

It is my pleasure to share with you some of my views and experiences with respect to corporate govermnance practices related to Canadian state-owned enterprises. In particular, I have been asked to focus my comments on the role of the board of directors. I hope to be able to demonstrate to you today that there is considerable value in achieving excellence in governance for state-owned enterprises and that one of the most important factors in ensuring governance excellence is to have a highly functional board.

The Government of Canada has over 40 state-owned enterprises with a wide range of public policy and commercial mandates. Best practices in governance have existed for some time and there has not been nor is there expected to be dramatic evolution in what is deemed to constitute best practice. Best practices are generally applicable to both private and state-owned enterprises, with some minor exceptions related to the ownership model and the role of the shareholder. The Government of Canada, through its Treasury Board, has issued guidelines on *Corporate Governance in Crown Corporations and Other Public Enterprises* that federally owned enterprises are expected to follow. In addition, the Auditor General of Canada reviews the governance practices of state-owned enterprises and issues recommendations based on her findings. Even with the diversity of the mandates of the various Canadian state-owned enterprises, there is a demonstrable correlation between the effectiveness and capabilities of the board of directors, and the performance of the enterprise.

The board of directors is responsible for governing the affairs of the enterprise and the conduct of its business. As steward of the corporation, the board oversees the strategic direction, ensures the integrity of its corporate and financial systems, deals with risk management issues, and generally guides the management of the corporation. The board should have a non-executive chairman and consist of a reasonable number of directors, in the range of seven to ten. One of the most important responsibilities of any board of directors is to hire, review the performance of, set remuneration for and, where necessary, remove the president and chief executive officer.

I subscribe to the view that there are basic requirements and values that will always underpin good corporate governance in a state-owned enterprise: integrity, transparency, sound planning, effective and efficient management structure, and a healthy dynamic of the board constructively challenging management. A board should not simply accept management's recommendations; the onus is on management to present sufficiently robust and compelling business cases to be able to gain the board's approval. A strong working relationship and a climate of confidence between the board and senior management are key to promoting a strong corporate culture. The board should act to carefully distinguish the roles of the chair and the chief executive officer. There should also be clear, delineated delegations of authority to management from the board of directors.

As it is clearly not practical for the full board, generally consisting of part-time directors, to conduct all of the business of the board, an effective board of directors will make appropriate use of committees to conduct its affairs and aid with the discharge of its fiduciary obligations. State-owned enterprises should, at a minimum, have the following three standing committees:

- governance committee, which can also function as the nomination committee;
- audit committee with additional responsibilities for risk and finance; and
- a human resources committee, including responsibility for compensation and succession planning.

Boards can also form ad-hoc committees to address specific, emergent needs. Whether a standing or ad-hoc committee, each committee should have clear, written terms of reference and operating procedures that specify the scope of the committee's responsibilities, and how it carries out those responsibilities, including structure, processes and membership requirements. The terms of reference, or charter, should be established by a formal resolution of the board or through an appropriate corporate by-law, and be reassessed periodically by the board of directors.

The board should ensure that committee work is shared among board members and that committee members are selected on the basis of their interests, expertise and availability. The board should further ensure that board members are regularly informed of each committee's activities, findings, conclusions and recommendations, as the board remains ultimately responsible and accountable.

The governance committee is, as the name implies, responsible for the enterprise's governance practices and board evaluation. If there is not a separate nomination committee, the governance committee also oversees board renewal and director recruitment.

The human resources committee oversees corporate policies relating to human resources. It is responsible for setting compensation levels for the chief executive officer, and directing management with respect to human resources programs and succession planning.

The audit committee is generally seen as the most important committee and it should ensure ethical oversight through the annual review of management's compliance with the enterprise's code of conduct. The audit committee advises the board of directors on the soundness of the financial management of the corporation, and assists the board in overseeing internal control systems, financial reporting, risk management and the audit process. It should have the authority to investigate any activity of the corporation and all employees are obliged to cooperate. The committee should also have the ability to retain independent consultants that report to and can advise the committee directly without going through management. The audit committee should be composed of directors that are all neither officers nor employees of the corporation or any of its affiliates. Although a variety of skills and experience is beneficial to an effective and balanced audit committee, all members should be financially literate and at least one member should have accounting or related financial management expertise.

For the state-owned enterprise to succeed, all board members should be appointed based on merit and, in all instances, should have the necessary skills, qualifications and experience for the position. As the ultimate "shareholders" of state-owned enterprises are the taxpayers of the country, in my view, boards members and chief executive officers of state-owned enterprises should be held accountable for their actions to the same, if not higher, standard as their private sector counterparts, and they should be subjected to the same consequences in cases of misconduct or non-performance. If inexperienced or unqualified board members are appointed at times, and if board members are not held accountable for the performance of the enterprise, the state will not consistently realize the full potential from its ownership position.

One of the unique aspects of state-owned enterprises is, of course, their ownership and accountability. While it is the government that is in most cases the sole shareholder of the state-owned enterprises in Canada, as I noted previously, the enterprises are ultimately accountable to the taxpayers of the country. To reflect this accountability, Canadian state-owned enterprises report to the Parliament of Canada through an assigned minister. If a state-owned enterprise reports to or through a minister of the government, the government should attempt to ensure that there is some continuity to the reporting relationship, and the minister assigned the responsibility for a state-owned enterprise has the knowledge, capabilities and bureaucratic support to ensure proper discharge of his responsibilities.

Frequent changes in the ministerial contact or if the minister is not aware of or is incapable of discharging his responsibilities, can lead to a breakdown in the governance accountability framework, potentially resulting in a disconnect between the goals of the government and the actions of the state-owned enterprise. Similar to board members and chief executive officers of state-owned enterprises, ministers should also be held accountable for their performance, including any misconduct or acts of inappropriate influence.

Most importantly, boards of directors overall and individual directors should be fully cognizant of their responsibilities and obligations, and have the ability to exercise independent judgment in the best interest of the state-owned enterprise. In the case of state-owned enterprises, independence should be interpreted to mean avoidance of political influences as well.

Public servants as directors should be avoided unless there is a compelling policy reason why they should be a member of the board. In such cases, it is essential to note that directors who are public servants have the same statutory obligation as other directors to exercise independent judgment in ways that best fulfill their fiduciary obligations to the enterprise.

The board, in consultation with the chief executive officer, should identify the profile of skills that would best enable the board to fulfill its responsibilities, and the board should regularly update the skills profile to ensure its continuing relevance. Directors should have varied and complementary skills. Vacancies that arise should be filled on the basis of a board profile and associated skills assessment, best undertaken in the form of a skills matrix.

All state-owned enterprises should conduct evaluations of the effectiveness of the board overall, its committees and individual directors; however, board and particularly individual director evaluation is often the best practice boards are most reluctant to embrace. While some Canadian state-owned enterprises have assumed a leadership role in this regard, others have yet to introduce a fulsome process. Board and individual director evaluations, if done in a constructive manner, can be highly beneficial in bringing about continuous improvement to the benefit of the individuals involved, the particular state-owned enterprise and, ultimately, the state. I have found that an independent third-party evaluation generates the most meaningful results. To ensure that board members feel comfortable with, not threatened by, the evaluation, the process can be phased-in over time. While self-assessment of the board and the committees overall is a positive first step, the board should work to have an independent, outside assessment of its performance and that of each director.

While government guidelines and best practices abound, the success of a state-owned enterprise essentially hinges on the effectiveness of its board of directors and senior management. In this context, the most important single action that a government can take in ensuring the effectiveness of its state-owned enterprises is to appoint qualified, skilled and experienced directors to the enterprises' board, ensure that there is clarity to their roles and responsibilities, and hold them accountable for the corporation's and their own performance.

This includes establishing a system that compels the desired behaviours, and has consequences in the event of non-performance or misconduct. It is readily demonstrable that the effectiveness of a state-owned enterprise is directly correlated to the abilities and behaviours of its board of directors and senior management.

I would like to illustrate the efficacy of my statements with the Canada Lands Company example. Canada Lands, is an arm's length state-owned enterprise reporting to the Parliament of Canada through a responsible minister. It is a commercial enterprise that does not rely on appropriations from the government; rather, it returns dividends to the state. Its mandate is to optimize the value realized, in terms of both financial and community outcomes, from surplus property no longer required for program purposes by the Government of Canada.

It fulfills its mandate by purchasing properties at fair market value from government departments, agencies and other state-owned enterprises, then managing, improving and selling those properties to achieve optimal financial and non-financial value for its government shareholder. In addition, it strives to create vibrant, sustainable communities that improve the economic, social and environmental well-being of the communities where it operates. Let me show you some project examples…………..

Canada Lands, as a corporation, has acted proactively since 2000 to improve both its governance and management practices, with significant positive bottom-line results. As Canadians are well aware, Canada Lands had been embroiled in issues and allegations related to the late 1990s, which were broadly reported in the Canadian media. When I joined the company in 2000, the company was also in a state of internal crisis with respect to sustainability as the low level of property transfers at the time would have led to wind-down and some office closures by no later than 2002. In addition, although cash flows had been positive, relative levels of net income had been modest. To clarify, while the company had created significant financial and community value by disposing of a considerable portfolio of properties on behalf of the government, its actions, in the absence of strategic planning, had led to a declining property inventory that was insufficient to sustain future operations.

Additionally, the company performed well in generating revenue, but more attention needed to be paid to the expenditure side of the equation, in terms of achieving efficiencies in overhead and investing in properties for increased future returns.

With an essentially new senior management team and new board leadership, the company embarked on a strategic approach to business, along with major governance and management practices overhauls. The results have been extremely positive in many respects. The company has gone from one embroiled in issues and allegations to one that is now broadly recognized as having outstanding governance practices, as confirmed by independent, external audits.

The linkage between excellence in governance and corporate performance is very evident at Canada Lands. After years of experiencing a declining asset base and correlated financial performance, efforts over the past years to reverse this trend demonstrated significant success.

Even with fewer properties and resources than ever before, annual pre-tax value creation had increased to an average of 31.9 million dollars for the last two fiscal years I was with Canada Lands, or approximately 168% of pre-2000 results, or 342,000 dollars of value created per annum on average by each employee, excluding the CN Tower, as operational interest was reacquired only in January of 2004. The company's highest annual net income level historically was 24.1 million dollars, with its then five-year plan projecting to exceed 40 million dollars in a year.

Overheads had been reduced dramatically in a positive, sustainable manner with accumulated savings in excess of 4 million dollars over the last two years I was with Canada Lands, equating to a 33 percent reduction from the benchmark. Finally, the property asset base by year two of the then five year plan period conservatively projected to be nearly 465 million dollars compared to the highest historical level of 337 million dollars at the company's reactivation in 1995.

In addition to having returned 296 million dollars, as of July 15th 2004, in distributions to the Government of Canada, the company's activities to date, along with estimates for its sold properties, will lead to the following benefits for local communities and all Canadians:

- 4.1 billion dollars in private sector stimulation;
- 32,600 person years of direct construction employment;
- 20,200 new or refurbished residential units at all affordability levels;
- 1.1 million square metres of non-residential construction; and
- 53 million dollars invested in environmental remediation.

Policies, practices and procedures are clearly very important but the turn-around and subsequent success of the company is attributable to the people involved. Canada Lands has a very effective chairman, Marc Rochon, whose commitment to improving the company's governance practices and transparency of operations has been instrumental. He is supported by a highly functional board and a strong management team.

For a compelling reason to ensure excellence in governance practices, one need only consider the dramatic improvement in Canada Lands' financial and non-financial performance.

Each enterprise is unique in some respects and will have to adapt accordingly; however, basic principles of good governance – openness and transparency, stakeholder consultation and communications, striving for continuous improvement and board assessment; as well as planning, monitoring, managing and reporting on goals and associated performance in a candid and defensible way are examples of practices that are applicable to any organization – be it private or state-owned. I hope that I have demonstrated to you today that excellence in governance practices, starting with a strong and capable board of directors, is well worth the effort, and can have significant and positive impacts on enterprise performance, including bottom-line financial results. The appointment process of both board members and chief executive officers of state-owned enterprises is an extremely important first step.

Thank you for your time. I would now be pleased to respond to any questions that you may have.