



Ministry of Strategy
and Finance

**9th Meeting of the OECD-Asia Network on
Corporate Governance of State-Owned Enterprises**

Disclosure and Transparency in the State-Owned Enterprise Sector

– Summary Record –

**6-7 December 2016
Seoul, Korea**

Meeting highlights

The 9th meeting of the OECD-Asia Network on Corporate Governance of State-Owned Enterprises (Asia SOE Network) on “Disclosure and Transparency in the State-Owned Enterprise Sector” was held on 6-7 December 2016 in Seoul, Korea. It was hosted by the Korea Institute of Public Finance with the financial support of the Ministry of Strategy and Finance of Korea. It brought together approximately 40 participants, including governmental and non-governmental representatives from Bhutan, China, France, India, Kazakhstan, Korea, Malaysia, Pakistan, the Philippines, the Slovak Republic, Thailand, Turkey and Viet Nam. During the 1.5 day meeting, participants:

- Engaged in a roundtable discussion on **evolutions in state ownership and governance practices** in Asia, with presentations by representatives from India, China, the Philippines and Malaysia.
- Discussed **SOE disclosure requirements and practices** in Asia, notably learning about the national SOE disclosure landscape in Pakistan, Thailand, the Philippines and Viet Nam. Participants shared information on efforts to harmonise disclosure requirements across the SOE sector, highlighted challenges in ensuring SOE compliance with requirements and noted potential issues with “over-burdensome” disclosure requirements, particularly for commercially-oriented SOEs.
- Shared information on **national approaches to aggregate reporting on SOEs**. Participants notably discussed reporting undertaken by state holding companies (on a select portfolio of SOEs), reporting encompassing the entire SOE sector and the use of web-based communications to facilitate public access to information. The main findings of ongoing OECD work on national practices towards aggregate reporting were presented.
- Engaged in an in-depth discussion with representatives of the Korean authorities and the state-owned Korea East-West Power Company concerning the **SOE disclosure and transparency system in Korea**. Related discussions notably focused on ALIO, the integrated online web portal that gathers and disseminates key information on the operations and financial position of public institutions in Korea, including SOEs.
- Discussed **next steps for the Asia SOE Network**, notably agreeing to focus future work on SOE risk management, board practices and business integrity. Participants also agreed on the need to identify a host country for the 2017 annual meeting, noting the offer by the Pakistan Institute of Corporate Governance to host. Network members welcomed the continued financial support of the Korean Ministry of Strategy and Finance for its ongoing activities.
- Launched a **questionnaire-based exercise** on national approaches towards disclosure and transparency in the state-owned enterprise sector, which seeks to shed light on disclosure requirements and practices at both the level of individual SOEs and at the level of the state, in contributing Asian countries.

Opening session

Dr. Kyoo-Hong Cho (Deputy Minister for Fiscal Affairs, Ministry of Strategy and Finance, Korea) opened the meeting by thanking the Korea Institute of Public Finance (KIPF) for hosting the event. He highlighted the OECD's important role in promoting good practice in SOE governance, noting that since the SOE Guidelines were first developed in 2005, many countries have taken steps to bring national practices in line with their standards. Dr. Cho emphasised recent efforts undertaken by the Korean government to respond to increasing expectations that citizens place on public institutions to perform efficiently and transparently. These efforts have included debt reduction measures, restructurings and the establishment of an online portal, ALIO, which discloses extensive information on the operations and finances of public institutions.

Mr. Hyung-Soo Park (President, Korea Institute of Public Finance, Korea) welcomed participants on behalf of KIPF. He noted citizens' increasing demands for transparency, both in Korea and around the world. He highlighted recent legislative reforms in Korea bearing on the conduct of public employees, notably the Act on Prohibition Against Improper Solicitation and Graft. He put forward that the 9th meeting of the Asia SOE Network can be considered a starting point for future co-operation, featuring both an exchange of national practices among Asian countries and the sharing of OECD expertise drawing on the standards of the SOE Guidelines.

Mr. Adem Sezer (Chief of Division, Directorate General of State-Owned Enterprises, Undersecretariat of the Treasury, Turkey) offered opening remarks in his role as a representative of the OECD Working Party on State Ownership and Privatisation Practices. Mr. Sezer thanked KIPF for hosting the event and the Government of Korea for its financial support for the Asia SOE Network. Mr. Sezer highlighted SOEs' important role in the global economy, including in Asia. He then gave an overview of the OECD's future plans for disseminating and supporting implementation of the SOE Guidelines. He ended with some proposed potential outcomes of the meeting, notably (1) sharing national experiences with SOE reform and transparency; (2) finalising the stocktaking on national practices towards transparency and disclosure in the SOE sector¹; and (3) agreeing on future work streams for the Network.

Mr. Bumgook Gwak (Chairman and President, Korea Deposit Insurance Corporation, Korea) shared information on the role of Korea Deposit Insurance Corporation in restructuring the banking sector between 1998 and 2006. The restructuring notably involved the (temporary) nationalisation of 5 failed financial institutions, and their merger into 1 bank. Mr. Gwak put forward some "success factors" for maintaining the bank's corporate efficiency during this period. These included: ensuring that it was subjected to market disciplines, e.g. through its 2003 listing; the conclusion of an MoU between KDIC and the bank, clearly defining financial and non-financial targets; KDIC remaining explicitly committed to the bank's eventual privatisation; and the use of outside directors on the board to enhance accountability and transparency. He noted the importance of giving SOEs sufficient independence from the government, while ensuring that they are subject to government review and market discipline. He ended by highlighting that a commitment to privatisation can ultimately make SOEs more competitive and a greater source of growth.

¹ Meeting participants contributed responses to a questionnaire on national approaches towards disclosure and transparency in the state-owned enterprise sector.

Session 1 - Roundtable on evolutions in state ownership and governance practices in Asia

Hans Christiansen (Senior Economist, OECD Directorate for Financial and Enterprise Affairs) moderated the session. He offered some words of introduction on the OECD Working Party on State Ownership and Privatisation Practices and provided an update on the Working Party's foreseen plans for the coming years. These include (1) the elaboration of OECD guidance on anti-corruption and business integrity in the SOE sector; (2) the development of good practice guidance for SOE reporting; and (3) an examination and sharing of national practices with SOE privatisation.

Dr. U.D. Choubey (Director General, Standing Conference of Public Enterprises [SCOPE], India) expressed his support for the Asia SOE Network. He then gave an overview of the SOE landscape in India, recalling that the Indian Constitution foresees a "mixed economy". He detailed some major SOE reform initiatives in India, including notably the classification system of SOEs (which accords high performing SOEs with greater autonomy); the use of MoUs and a performance management system; and the amended Companies Act (2013) which, among others, requires a minimum percentage of female directors on SOE boards. He proposed some future priority reforms for consideration, including notably: the development of an explicit ownership policy (to address both passive state ownership and informal interference); a clarification of roles between the state, boards and management; the consolidation of sovereign holdings; a simplification of the multi-layered accountability framework applicable to SOEs; improved succession planning; and training for directors.

Mr. Ji Xiaogang (Director, Office of SOE Reform Steering Group, State-Owned Assets Supervision and Administration Council [SASAC], China) focused his presentation on the role of SOE boards of directors in implementing key elements of SOE reform initiatives in China. He gave an overview of the main responsibilities of SOE boards of directors, which include, among others: developing mid- to long-term corporate plans; selecting top executives, evaluating their performance and setting their remuneration; and deciding on major financial issues. He then put forward some recommendations on building more effective boards, which included: measures to safeguard boards' rights and responsibilities; optimising board composition; standardising board meeting rules; and training more qualified directors.

Mr. Samuel G. Dagpin Jr. (Chairman, Governance Commission for Government Owned or Controlled Corporations, Philippines) gave an overview of the SOE landscape in the Philippines, including their main legal forms (i.e. incorporated via enterprise-specific statutory legislation or subject to general company law). He then offered a brief history of SOE governance reforms since 1988 – including the 2011 establishment of the Governance Commission – and detailed the main governmental guidelines bearing on SOE governance. These include notably the Ownership and Operations Manual for GOCCs, which formalises board autonomy and calls for non-interference of the government in SOEs' daily operations²; the Code of Corporate Governance for GOCCs, which notably requires SOEs to elaborate a corporate governance manual; and the Fit and Proper Rule outlining qualifications for SOE directors and trustees. He then gave an overview of the process for nominating and evaluating SOE board members, including the impact of evaluations on performance-based incentives.

Mr. Wan Saiful Wan Jan (Chief Executive, Institute for Democracy and Economic Affairs, Malaysia) gave an overview of the SOE landscape in Malaysia. He noted that there is little information on the number or size of SOEs in Malaysia beyond those that are directly under the

² "GOCCs" refers to Government-Owned or –Controlled Corporations, or SOEs in national nomenclature.

purview of the Ministry of Finance's Government Invested Companies Division. He highlighted some key issues with governance and transparency in the SOE sector, noting that SOEs that are incorporated similarly to private companies have very weak corporate disclosure and governance requirements. He noted that the Malaysian government is increasingly taking steps to improve governance in the SOE sector. In this regard, the Khasanah Research Institute was notably tasked recently with drafting a State-Owned Enterprises Governance Act (SOEGA), possibly a step towards better harmonising governance and transparency requirements across the SOE sector.

Session 2 - Improving financial and non-financial disclosure at the enterprise level: Accounting, audit and reporting

Dr. Im Gon Cho (Executive Director, Research Centre for State-Owned Enterprises, Korea Institute of Public Finance, Korea) moderated the session.

Mr. Tahir Mahmood (Commissioner, Corporatisation and Compliance, Securities and Exchange Commission, Pakistan) gave an overview of the SOE landscape in Pakistan, including SOEs' classification according to their legal form and commercial orientation. He highlighted some key issues with SOE governance in Pakistan, including: insufficient quality and strength of boards of directors; lack of accountability; political interference; overstaffing; and insufficient quality of disclosure. He then focused his presentation on the disclosure requirements placed on SOEs, notably as outlined in the Public Sector Companies (Corporate Governance) Rules. The rules are only applicable to SOEs incorporated according to the company law, which excludes some economically important SOEs (e.g. Pakistan Railways) from their scope of applicability. Financial penalties for non-compliance with the rules are foreseen. He then presented the main findings of a study on SOEs' compliance with the rules, undertaken by the Pakistan Institute of Corporate Governance. Mr. Mahmood concluded with some proposals for improving SOE governance in Pakistan, among others concerning the nomination, composition and competency of SOE boards of directors.

Ms. Panniwit Wittayaphan (State Enterprise Analyst and Assistant to Director-General, State Enterprise Policy Office, Ministry of Finance, Thailand) provided an overview of the SOE ownership and governance arrangements in Thailand, including the role of the State Enterprise Policy Office in harmonising and strengthening the corporate governance of SOEs. She then gave a detailed overview of the disclosure requirements placed on SOEs, notably as laid out in an SOE disclosure standard that was endorsed by the Cabinet of Thailand in 2014 with the aim of bringing the disclosure requirements of non-listed SOEs more in line with those applicable to listed companies. The disclosure requirements include details related to: general business operations; corporate governance and management practices; and financial position and performance. She concluded with an overview of the annual performance monitoring process for SOEs, which notably includes indicators related to compliance with applicable disclosure standards. The results of the performance evaluation inform financial incentives.

Mr. Johann Carlos S. Barcena (Director IV, Corporate Governance Office B, Governance Commission for GOCCs, Philippines) presented the general disclosure requirements placed on SOEs in the Philippines, laid out in the GOCC Governance Act of 2011. In addition to the requirements established by the GOCC Governance Act, disclosure is also addressed in the Code of Corporate Governance applicable to SOEs. Disclosure by SOEs is also supported through an Integrated Corporate Reporting System, which serves as a publically accessible central repository of financial and non-financial information on SOEs. Mr. Barcena also presented the Corporate Governance Scorecard, which assesses SOEs' corporate governance against the standards of the OECD Principles of Corporate Governance and the ASEAN Corporate Governance Scorecard. Mr. Barcena ended by giving an overview of the accounting and auditing system for SOEs, including the role of the

Commission of Audit, which is responsible for overseeing the financial operations of the government and is vested with the responsibility for auditing SOEs.

Mr. Tran Tho Hai (Ministry of Finance, Viet Nam) presented the legal framework for SOE disclosure in Viet Nam. He noted that improving disclosure and transparency in the SOE sector is an important reform priority in Viet Nam, particularly given SOEs' importance to the national economy. He highlighted that public disclosure (and not simply reporting to the government) is a key element for increasing scrutiny on the SOE sector and ultimately improving SOE efficiency. Mr. Hai detailed the annual and periodic reporting requirements placed on SOEs, including the process by which information is submitted to line ministries and then placed on the websites (as applicable) of both SOEs and their line ministries. Administrative penalties are foreseen in case of non-compliance with reporting requirements. Mr. Hai then presented the main findings of a study undertaken by the Central Institute for Economic Management which uncovered major gaps in SOE compliance with reporting requirements. Mr. Hai noted that there is significant scope for improving the accuracy and quality of SOE disclosure in Viet Nam. He concluded by proposing a number of possible remedial steps, including simplifying legal disclosure requirements, building a centralised disclosure portal and incentivising compliance through rewards and penalties.

Session 3 - The state as an accountable owner: Good practices for aggregate reporting

Dr. Sejeong Ha (Head of State-Owned Entity Policy Research Team, Korea Institute for Public Finance, Korea) moderated the session.

Ms. Eon Joo Shin (Director of Public Institutions Management Information Division, Ministry of Strategy and Finance, Korea) presented ALIO, the "Public Institution Management Information System", an online portal established in 2006 which publishes information on the operations and performance of public institutions (including SOEs) in Korea. The information that public institutions are required by law to submit to the ALIO system includes: general operational information (e.g. number of employees, board members, executives' salaries); financial information (e.g. balance sheet, shareholder information, audit report); information on employee benefits; and a number of other items such as procurement information and board meeting minutes. Ms. Shin gave a detailed overview of the process by which public institutions submit data to the ALIO system and presented figures on yearly increases in the number of visitors to the website since 2013. She also gave an overview of the process by which the Ministry of Strategy and Finance reviews the submitted data and follows up with public institutions as necessary. She concluded by proposing some potential future policy directions for ALIO, including the training of officials in charge of submitting data and reinforcing follow up with individual institutions.

Mr. Om Nirola (Associate Director, Druk Holding and Investments, Bhutan) provided an overview of the state ownership model in Bhutan, according to which a sizeable portfolio of SOEs is overseen by the state holding company Druk Holding and Investments (DHI) and the remainder of SOEs are under the purview of the Ministry of Finance. He then presented the main components of SOEs' legal environment, including the Companies Act of Bhutan (2016), the DHI Corporate Governance Code and the Rules Governing Listing of Securities. He then gave an overview of the periodic and annual reporting requirements placed on SOEs, including the financial and non-financial information that must be included in annual reports. Concerning disclosure at the level of the state, Mr. Nirola noted that the government does not produce an aggregate report as such, but that information on the performance of the SOE sector can be gleaned from other documents, such as the State of the National Report and the Annual Statistical Yearbook. He then discussed the main bodies with oversight responsibilities for SOEs and detailed their respective obligations (e.g. independent external auditors are responsible for conducting an annual statutory audit of SOEs).

Ms. Korin Kane (Policy Analyst, OECD Directorate for Financial and Enterprise Affairs) gave an overview of the main policy tenets of the SOE Guidelines concerning SOE aggregate reporting and presented the main findings of an OECD stocktaking of national approaches towards aggregate reporting³. Ms. Kane underlined that the SOE Guidelines call for governments to publish an annual aggregate report on SOEs, including among others information on the state ownership policy and SOEs' financial and non-financial performance. She then presented the main findings of the aforementioned stocktaking, which found that over one third of the 52 surveyed countries undertake some form of aggregate reporting on the entire SOE portfolio. Most aggregate reports include information on SOEs' financial performance and value, implementation of the state ownership policy and total employment in SOEs. A smaller number of countries report on SOE board composition and the costs and funding arrangements of SOEs' public policy objectives. Ms. Kane ended by proposing some potential areas for further research and sharing of good practices. These included: sharing national experiences with estimating, and reporting on, the costs of SOEs' public policy objectives; examining in more detail reporting on SOE board composition and independence; and distilling elements of good practice for web-based aggregate reporting.

Session 4 - Spotlight on Korea: Disclosure and transparency practices

Mr. Seungju Baek (Senior Policy Analyst, OECD Directorate for Financial and Enterprise Affairs) moderated the session. The session began with presentations by two main speakers, followed by a question-and-answer session with three discussants and then an open discussion with all participants.

Ms. Kyoungsun Heo (Research Fellow, Research Centre for State-Owned Entities, Korea Institute of Public Finance, Korea) highlighted the increasing interest among Korean citizens in the transparency of public institutions. She also noted the heightened concerns concerning risks of corruption in the public sector and other challenges such as complex ownership structures of public institutions and information asymmetry which can lead to inefficiencies. She then gave an overview of the transparency system for public institutions in Korea, notably related to accounting and auditing standards. She noted that public corporations and quasi-government agencies in Korea must apply IFRS in their accounting practices, but that other public institutions are not required to do so. Ms. Heo presented the mandatory disclosure requirements placed on individual SOEs, which notably includes mandatory disclosure on both SOEs' respective websites and through the ALIO platform. She then gave an overview of recent initiatives to promote ethical conduct and efficient operations by SOEs, including a 2015 Public Institutions Anti-Corruption Survey undertaken by the Anti-Corruption and Civil Rights Commission and the "Government 3.0 Evaluation" undertaken by the Ministry of the Interior among 116 public institutions. She also presented the main tenets of the 2015 Improper Solicitation and Graft Act, which imposes a criminal penalty to public officials who receive bribes. Ms. Heo concluded by noting that many measures have been undertaken in Korea to improve accounting, audit and disclosure by SOEs (and other public institutions), including voluntary measures e.g. the publication of sustainability reports.

Mr. Yong Hyun Kim (General Manager, Korea East-West Power Co., Ltd.) shared insights on SOE governance and transparency from the perspective of an SOE. He gave an overview of the performance evaluation process at the state-owned Korea East-West Power Co. (KEWP) and introduced his company's approach to increased operational transparency through public disclosure. He presented KEWP's disclosure practices as comprising (1) voluntary disclosure measures, including

³ The information was based on a section of the forthcoming *OECD Compendium on SOE Ownership and Governance Practices*, which was shared with participants for their comments and corrections.

“pre-emptive” disclosure, i.e. prior to any public demands for information; and (2) mandatory disclosure measures, notably those imposed by the ALIO system and by the Government 3.0 Evaluation initiative. Concerning voluntary disclosure measures, KEWP has a “disclosure request form” which interested members of the public can use to ask for specific information.

Ms. Assel Alpysova (Corporate Governance Department, Samruk-Kazyna, Kazakhstan) first gave a brief overview of Samruk-Kazyna, which is a state holding company with a portfolio of approximately 540 companies, accounting for 50% of Kazakhstan’s GDP. She briefly outlined the 2014 “transformation programme” undertaken by Samruk-Kazyna to increase the long-term value and efficiency of SOEs, noting that a key priority of the Kazakhstan government is to ensure that SOEs contribute to sustainable economic development. Her questions related to, among others, requirements and practices concerning reporting on non-financial performance by Korean public institutions. Ms. Heo noted that approximately half of ALIO’s indicators are non-financial, including for example reporting on board minutes. Ms. Alpysova highlighted the value of sustainability reporting by state holding companies, whose responsibility is arguably not only to investors but also to citizens.

Mr. Xie Hui (Deputy Director, Bureau of Foreign Affairs, SASAC, China) congratulated the Korean authorities for the ALIO system and for recent efforts to combat corruption in the public sector. He shed some light on transparency in the SOE sector in China, giving an overview of (1) the disclosure requirements developed by SASAC in 2009 (and applicable to its portfolio companies); and (2) the disclosure requirements placed on listed SOEs by virtue of listing regulations. He noted that the 2016 Guidelines on Deepening SOE Reform call for SASAC to establish an integrated platform on SOEs, to report, among others, on their financial situation, related party transactions and executive remuneration policy. Mr. Hui asked a number of questions to the main speakers, among others concerning: whether certain information disclosure requirements should necessarily be directed to the public (and not just the state); differences in disclosure requirements according to SOEs’ commercial orientation; and the corporate implications of heightened disclosure requirements (e.g. concerning staffing). In this regard, it was noted that information disclosure requirements, particularly on commercial SOEs, should not create undue commercial disadvantages as compared with private companies.

Mr. Rajiv Rai (Secretary, Public Enterprises Selection Board, India) gave an overview of the SOE board member selection process undertaken by the Public Enterprises Selection Board. The process features a number of elements to strengthen transparency, e.g. through the publication of board member vacancies one year in advance of the vacancy and an extensive information campaign among SOEs, line ministries and the public. He then asked some questions to the main speakers concerning, among others, any pre-emptive measures in place in Korea to ensure that SOE officers are of high ethical standing; and the criminal penalties imposed on SOE officers for misconduct.

Session 5 - Next steps for the Network

Mr. Hans Christiansen (Senior Economist, OECD Directorate for Financial and Enterprise Affairs) moderated the session. The main objectives of the session were to (1) agree on next steps for ongoing and future work streams and (2) discuss the potential location (and host country) for the 2017 Asia SOE Network meeting.

Mr. Rashid Ibrahim (Council Member, Institute of Chartered Accountants of Pakistan) gave an overview of the SOE sector in Pakistan, recalled some salient features of the Public Sector Companies (Corporate Governance) Rules and highlighted some key remaining governance issues in Pakistan’s SOE sector. He then gave an overview of the main outcomes of recent conferences

organised by the Institute of Chartered Accountants of Pakistan (including notably recommendations related to SOE governance reform) and expressed ICAP's keen interest in hosting the 2017 meeting of the Asia SOE Network.

Dr. Wonhee Lee (Professor, Department of Public Administration, Hankyong National University, Korea) noted the value of computer-based integrated SOE disclosure systems and suggested that the Network engage in future work on the use of IT systems to monitor SOEs.

Mr. Tran Tho Hai (Ministry of Finance, Viet Nam) gave an overview of key current SOE reform priorities in Viet Nam, including efforts to restructure SOEs, to withdraw state capital and to privatise with a view to developing the capacity of the private sector to deliver on SOEs' objectives. He then proposed that the Network engage in future work on SOE privatisation in Asia (e.g. concerning enterprise valuation, debt restructuring process, etc.).

Dr. Im Gon Cho (Executive Director, Research Centre for State-Owned Entities, Korea Institute of Public Finance, Korea) proposed the following potential future topics and outputs for the Network: (1) risk management in the SOE sector; (2) training programmes in the SOE sector; and (3) a comparison of SOE ownership and governance practices in Asia (e.g. through a compendium of national practices in Asia or an annual statistical yearbook).

Mr. Rajiv Rai (Secretary, Public Enterprises Selection Board, India) gave a presentation on measures to promote ethical conduct in the SOE sector in India. This included an overview of the rules of conduct applicable to SOE officials as well as a description of the process by which complaints of misconduct are addressed by the relevant governmental agencies and departments, including differences based on the severity of the alleged offense. Mr. Rai then proposed that the Network examine measures undertaken in Asia to promote business integrity in the SOE sector.

Closing remarks

Closing remarks were provided by Im Gon Cho on behalf of the Korea Institute of Public Finance and by Hans Christiansen on behalf of the OECD.