21 SEPTEMBER 1999

8:45 **Registration**

9:15 **Welcoming remarks**

- **Mr William Witherell**, Director, Directorate for Financial, Fiscal and Enterprise Affairs, OECD

THEME A - THE IMPACT OF PRIVATISATION ON CAPITAL MARKETS

SESSION I PRIVATISATION AND GROWTH OF CAPITAL MARKETS

Chairman **Mr Guillermo Fretes**, Vice-Chairman, National Securities Commission, Argentina

Rapporteur **Mr Rob de Stoppelaar**, Ministry of Finance, The Netherlands

9:30 – 10:45 ***The impact of privatisation on the changing landscape of global capital markets***

- **Mr Dante Roscini**, Managing Director, Merril Lynch, United Kingdom
- **Mr Cary Martin**, Deputy Chairman, Citigate Dewe Rogerson, United Kingdom

Discussant:

- **Mr Stilpon Nestor**, Head, Corporate Affairs Unit, OECD

General discussion

10:45 – 11:00 *Coffee break*

11:00 – 13:00 **Panel on *How has privatisation changed the role of equity markets***

- **Prof. Enrico Perotti**, University of Amsterdam, Netherlands
- **Ms. Ewa Freyberg**, Member of Parliament, Poland
- **Ms Sophie Javary**, Director, ABN AMRO Rothschild Bank, France

13:00 – 14:30 *Lunch*

SESSION II CORPORATE FINANCE PATTERNS IN PRIVATISED ENTERPRISES: THE DYNAMICS OF CHANGE FROM THE CORPORATE ANGLE

Chairman **Prof. Vittorio Grilli**, Director, Ministry of Treasury and Chairman of the OECD Privatisation Network, Italy

Rapporteur **Ms Elena Miteva**, Administrator, Corporate Affairs Unit, OECD

14:30 – 16:15 ***Privatisation and the financing of enterprises: A comparative overview of the evidence***

- **Prof. William Megginson**, University of Oklahoma, United States

Discussants:

- **Mr Tomas Jezek**, Member of the Presidium, Czech Securities Commission, Czech Republic
- **Mr Alexander Kolesnikov**, Deputy Chairman, The Federal Commission for the Securities Market, Russian Federation

General discussion

16:15 – 16:30 *Coffee break*

16:30 – 18:00 **Panel on *Patterns of change in corporate finance and their impact on the governance and organisation of enterprises***

- **Dr Pietro Ciucci**, Managing Director, Istituto per la Ricostruzione Industriale S.p.A., Italy
- **Mr Vaino Sarnet**, General Director, Privatisation Agency, Estonia

Débat général

22 SEPTEMBER 1999

THEME B - PENSION SYSTEMS REFORM AND PRIVATISATION

SESSION III PENSION REFORM DYNAMICS AND ITS IMPACT ON THE FINANCING AND GOVERNANCE OF ENTERPRISES

Chairman **Mr William Witherell**, Director, Directorate for Financial, Fiscal and Enterprise Affairs, OECD

Rapporteur **Mr J.J. Gollier**, President, AON Consulting, Belgium

9:30 – 10:45 ***Pension reform, capital market development and the impact on corporate finance***

- **Mr Hans Blommestein**, Head of the Financial Affairs Division, OECD
- **Mr Dimitri Vittas**, Lead Economist, the World Bank

Discussant:

- **Ms Monika Queisser**, Administrator, Directorate for Education, Labour and Social Affairs, OECD

General discussion

10:45 – 11:00 *Coffee break*

11:00 – 12:45 *The corporate governance role of private and public pension funds: the case of privatised enterprises*

- **Mr Augusto Iglesias Palau**, Senior Partner, PrimAmérica S.A., Chile

Discussants:

- **Mr Michel Nadeau**, Senior Vice President, Caisse de Dépôt & Placement du Québec, Canada
- **Mr Pierre-Henri Leroy**, Chief Executive Officer, Proxinvest, France

General discussion

12:45 – 14:30 *Lunch*

SESSION IV LINKING PRIVATISATION WITH PENSION REFORM

Chairman **Mr Markku Tapio**, Deputy Director General, Ministry of Trade and Industry, Finland

Rapporteur **Dr Katharina Mueller**, Economist, Frankfurt Institute for Transformation studies (FIT), Germany

14:30 – 15:45 *The Latin American experience*

- **Mr Pablo Gottret**, Chairman, Supervision of Pension and Securities Markets, Bolivia

Discussant:

- **Mr Mark Alloway**, IFC, The World Bank

15:45 – 16:00 *Coffee break*

16:00 – 17:00 *Pension reform and privatisation in transition economies*

- **Prof. Peter Mihalyi**, Department of Economics, Central European University, Hungary

Discussant:

- **Mr Marek Mazur**, President, Foundation for Development of Pension Funds, Poland

General discussion

17:00 – 18:00 Concluding Discussion

In the concluding round table discussion, rapporteurs will summarise the main issues and conclusions of each session.

NOTES TO THE AGENDA

1. The objective of ***Session I*** of the meeting will be to discuss the impact of privatisation on capital market development over the last decade. The privatisation process has changed capital markets fundamentally and has significantly contributed to the on-going globalisation of the financial landscape. As a result of large privatisation programmes, privatisation revenues have expanded at a pace that would have been hard to predict ten years ago. A large part of these revenues have been generated through public offerings and have led to an impressive growth of capital markets.

Public offerings, as a major privatisation method, have been an important vehicle of the influence of privatisation on capital market development. Most privatisation related offerings have had a strong retail component, which resulted in enhanced equity culture and a multitude of small shareholders. The implementation of policies encouraging retail participation signals to the market/institutions a longer-term commitment by the government. High levels of retail interest have also proved useful in building momentum for the offering by creating an impression of scarcity that leads institutions to bid more aggressively. On the other hand, there have been notable developments in the field of financial intermediaries. Many countries have developed their own institutions as a result of privatisation.

The openness to foreign capital has been a major factor in many privatisation programmes. The participation of international investors in privatisation was considered important by policy makers, both from the narrow perspective of higher revenues and for the broader reasons of attracting foreign direct and portfolio investment in the country. Through privatisation related offerings, in certain countries stockmarkets opened up to a broad range of global institutional investors. On the other hand, a healthy foreign direct investment underpins and solidifies the demand for emerging market equity by signalling a longer-term commitment to the host country. ***Session I*** will start by a general discussion of the impact of privatisation on capital markets development in OECD Member and non-member economies, which will be followed by a panel on how privatisation has changed the role of equity markets.

Main issues for discussion:

What has been the impact of privatisation related offerings on stock markets? How has privatisation influenced the size, liquidity and absorption capacity of the market?

What is the relative importance of institutional and retail investors in privatisation related transactions? What is the impact of privatisation on the further globalisation of capital markets?

How did privatisation change the pattern of financial intermediation? How did the growth of privatisation transactions impact on competition among financial intermediaries in the offerings? Has it helped create strong intermediaries on the equity markets?

How can privatisation be expected to influence the capital market in the future?

2. Global competition, accelerated technological innovation, growing integration of markets are important factors influencing the development of the corporate sector. In a globalised world, the state no longer has the financial resources to provide for the development of state-owned enterprises; they have to directly tap the markets. ***Session II*** will focus on their post-privatisation corporate finance patterns in privatised enterprises.

Investment of state-owned enterprises is largely debt financed. Excessive debt financing might be problematic, as it exposes companies to cyclical downturns and might, therefore, require implicit state guarantees. On the contrary, by tapping equity markets, companies acquire not only financing in a more cost effective manner, but also a market value, expressed in their share price. This allows them added flexibility in the way they relate to other players and in the way they strategically position themselves. Finally, more liquid and deeper capital markets have lead to lower borrowing costs and created a shift from bank to market based financing -- a trend known as desintermediation. Privatisation can also be perceived as a force that accelerates this trend.

Privatisation changes not only individual company behaviour, but also the whole corporate environment. Corporate control patterns change with the exposure of companies to take-over threats and pressures from shareholders. The insistence on improved performance by investors and the enforcement of management discipline through take-over mechanisms, require adaptation with respect to information. Management focuses more on shareholder value and better transparency. As privatised companies are often the largest players, their change of behaviour impacts on the way the whole corporate sector of the country operates. It is worth noting that often privatisation is combined with the broader reform of the regulatory framework of corporate governance. ***Session II*** will seek to provide a comparative overview of changing financing patterns in privatised enterprises and discuss country experiences.

Main issues for discussion:

How have companies performed on the stock exchange after their privatisation? How has the state's role as a controlling shareholder in privatised companies affected their performance on the market?

How has the financial structure of corporations changed with privatisation?

How has privatisation affected corporate governance structure and behaviour? Has a market for corporate control emerged? Did privatisation succeed in increasing transparency of ownership and accountability of shareholders? What was the impact on the openness to outside shareholders?

How active are institutional investors in the governance of enterprises in which they have stakes? Did the agency role assigned to institutional investors lead to increased market discipline and efficient corporate management? What is the impact on corporate governance of the increased demand for information on behalf of institutional investors?

3. Pension systems reform has come to the forefront of structural reforms in an increasing number of OECD Member and non-member countries. ***Session III*** will focus on the dynamics of the reform of pension systems and their impact on the financing and governance of enterprises. Development of private pensions may have far reaching consequences on savings and growth, as well as on the behaviour of corporations, institutional investors and regulatory agents. Through its influence on capital market development, pension reform and regulation might have important consequences on the development of the corporate sector.

A significant portion of pension funds assets is already invested in equities and the reform process can be expected to further increase equity investment. Such a trend may lower the cost of capital for corporations in the domestic market. The evidence also points to a substantial increase of foreign assets held by institutional investors. With continued efforts to liberalise cross-border financial flows and to strengthen capital markets in emerging economies, this trend is likely to persist. In this context of globalisation, growth in investment by pension funds is likely to benefit foreign corporations increasingly.

The rise in institutional private securities holdings has focused attention on the role and importance of institutional investors as monitors of corporate management. The fact that pension funds are relatively risk averse in equity holdings determines their investment strategy. In the past, investors basically tried to pursue "arms-length" relationships with companies in which they invested and to defend their interests by selling shares when performance failed to live up to expectations. On the other hand, pension fund managers track indexes in order to decrease risk. This strategy implies a "buy and hold" approach and a more long- term view of corporate ownership by institutions. Therefore, there is an incentive for funds to carry out a more active role in corporate governance of the enterprises in which they have stakes. Pension funds have been quite active in acquiring stakes in privatised enterprises. The latter are usually large important enterprises in the midst of important changes in their governance structure and behaviour. In this respect, it is interesting to identify the importance of fund ownership and their role as shareholders in the "transition" period. ***Session III*** will start with a discussion of the impact of pension systems reform on the capital markets and corporate finance and will go on to a discussion of the role of pension institutions in corporate governance of firms.

Main issues for discussion:

What are the basic limitations to equity exposure of pension funds under different regulatory concepts? Are pension funds allowed to target foreign markets and under what conditions? What are the features of the pension regulatory system likely to affect the development of capital, especially equity, markets?

What has been the impact of increased flows of savings to capital markets? Is pension reform contributing to the corporate finance shift towards equity? Is the existence of private pension funds a prerequisite for such a trend, or can public system have an equally important role?

How important is pension fund ownership in the corporate sector?

What has been the role of pension funds in corporate governance? Has the role assigned to institutional investors led to increased market discipline and efficiency of corporate management? How did it affect corporate governance in general?

4. In many countries, pension reform was as urgent as other reforms and was addressed together with other profound structural changes, such as tax and trade reforms, privatisation, financial sector and labour market reforms. The large actuarial deficit of the existing "pay-as-you-go" systems often requires fresh government money and in certain countries, the pension reform was directly linked to privatisation, as a means to provide additional funding. ***Session IV*** will examine the experience with such schemes.

Latin America, especially Chile, moved earlier than many other regions to reform pension systems and generally implemented this process as an integral part of overall economic restructuring programmes. Piecemeal transformation of the pension systems having failed to bring about the expected results, most of the countries embarked on comprehensive, radical pension reform programmes. In some of them, an innovative approach of direct combination between pension reform and privatisation of state-owned enterprises was implemented. State-owned enterprise assets/shares were used to capitalise the new pension system. The transition from the "pay-as-you-go" to the new funded pension system being a particularly costly exercise, privatisation proceeds were also used as an instrument to cover the financial gap and reduce the burden on the current generation.

In transition economies, privatisation and pension reforms became topical almost simultaneously. Both issues were viewed as elements of the 'transition agenda'. Until now, only Hungary, Kazakhstan and

Poland have made an irrevocable shift to funded systems. Other countries are still in the preparation phase. Hungary and Poland had originally planned to re-capitalise the "pay-as-you-go" system with a significant portfolio of privitiseable assets. This idea was abandoned later, but commitments were made to use the sale proceeds of the earmarked portfolio for boosting the pension system. Bulgaria, by contrast, has been exploring the opportunity to transfer directly state-owned assets to the new pension system. China is also thinking of using state assets to capitalise its pension system.

Main issues for discussion:

What are the 'pros' and 'cons' of linking privatisation to pension systems reform?

How has pension system reform been linked to privatisation? What was the rationale behind directly allocating privatisation assets and/or proceeds to pension funds? Were the assets of the old pension system 'privatised' as well and how?

What are the lessons that OECD countries can learn from privatisation of pension schemes in Latin American and transition economies? What have been the major drawbacks?

Was privatisation instrumental in providing capital markets with quality assets to pension funds? Has portfolio regulation given funds enough leeway to avail themselves of this opportunity?