



Organisation for Economic Cooperation & Development



## *Network on Corporate Governance of State-Owned Enterprises in Asia*

### **DRAFT AGENDA**

(Version 8 / 20/06/2008)

**The Oberoi Hotel  
New Delhi, India  
25-26 June 2008**

**In partnership with:**

**The Government of Japan**

**The Global Corporate Governance Forum**



**Hosted by:**

*The Ministry of Heavy Industry and Public Enterprises*

*The Ministry of Corporate Affairs*

&

*National Foundation for Corporate Governance*

*The Standing Conference of Public Enterprises*



Ministry of Heavy Industry and Public Enterprises  
Ministry of Corporate Affairs

**NFCG**

*National Foundation for  
Corporate Governance*

**SCOPE**

## Background and Objectives of the Asian SOE Network

The Asian Roundtable on Corporate Governance (hereinafter “**ARCG**”) has decided to develop, under its auspices, a specific activity on the corporate governance of SOEs to raise awareness and promote the use in Asian economies of the OECD *Guidelines on Corporate Governance of State-Owned Enterprises* (hereinafter “**Guidelines**”). These *Guidelines* were adopted in the spring 2005 and are the first international benchmark in this area.

A preliminary meeting was held in Beijing in May 2005, gathering a limited number of countries to discuss a first list of priority issues regarding corporate governance of SOEs in Asia. This preliminary discussion underlined the significance of SOEs in Asian economies and the complexity of the policy challenges related to their corporate governance. Since then, an increasing demand for exchange of experience and policy dialogue has been received from various stakeholders and countries in the region. The Guidelines were presented in the 2005 meeting of the ARCG in Bali. Discussions there underlined further the importance of developing a specific forum to carry out a focused policy dialogue and investigate in-depth the appropriate policy options to improve the governance of SOEs in Asia.

In order to reach the appropriate audience and to properly deal with the policy challenges ahead, it has therefore been decided to set up an Asian Network on Corporate Governance of SOEs (hereinafter the “**Asian Network**”), bringing together the experience and expertise of experts from all Asian economies participating in the ARCG. The Asian Network is planned to meet regularly and develop into a high-level hub for a structured policy dialogue on corporate governance of SOEs in Asia, using the Guidelines as a framework for discussion.

The objectives of the Network are:

- to raise awareness of all concerned constituencies on the importance and challenges related to the good corporate governance of SOEs;
- to evaluate the current SOE corporate governance policy frameworks and practices, and benchmarking these against international good practice as described in the Guidelines;
- to influence policy making by providing a forum in which policy makers, practitioners and experts can share knowledge and experience among themselves and with their OECD peers;
- to support viable and effective reforms in the area of SOE corporate governance, by discussing and analysing policy options, developing relevant recommendations and agreeing on priorities for reforms adapted to the conditions in Asian economies.

Altogether, the meetings will gather around 40 participants, including the most prominent, active and influential policy makers, practitioners and experts regarding corporate governance of SOEs in the region. They would constitute a peer group that can press for legal, regulatory or other type of reform in this field. In order to provide the OECD experience and to ensure consistency with the Guidelines, the Network will also include relevant experts from OECD countries, particularly from the OECD Working Group on Privatisation and Corporate Governance of State-owned Assets.

The Asian Network is planned to meet at least three times over 2006, 2007 and 2008 to cover the six chapters of the Guidelines. Each meeting is dedicated to comparing regional practices with one or two chapters of the Guidelines and to developing specific recommendations in this regard. The first meeting took place in Singapore in May 2006, hosted by the Singapore Institute of Directors. It focused on the first two chapters of the Guidelines, namely the legal and regulatory framework and the role of the state as an owner. The second meeting took place in Cebu, the Philippines, in April 2007 and focused on the role of the board and the relations with stakeholders. This third meeting will focus on Transparency and Disclosure and Equitable Treatment of Shareholders.

To keep the dialogue focused and to produce tangible outcomes, the Asian Network will progressively develop a Regional **Policy Brief**, providing a set of recommendations and priorities for policy reform in order to improve the corporate governance of SOEs in the economies of Asia. This Policy Brief will be the product of the Network’s deliberations and will be a consensus document.

## Wednesday 25 June 2008 - Morning Session

### “Current Indian Reforms in Corporate Governance of SOEs”

9.00 – 9:30 **Registration**

9:30 – 10.00 **Inaugural Session**

#### *Welcoming remarks*

- Dr. S. M. Dewan, Director General, SCOPE

#### *Keynote Speeches*

- Mr. R. Bandyopadhyay, Secretary, Department of Public Enterprise, Ministry of Heavy Industry and Public Enterprises
- Mr. Anurag Goel, Secretary, Ministry of Corporate Affairs

#### *Word of thanks and introduction of the third meeting of the Asia SOE Task Force*

- Mr. Rainer Geiger, Deputy Director, Directorate for Financial and Enterprise Affairs, OECD
- Mr. John Lim, President, Singapore Institute of Directors and Chair, Asian Network on Corporate Governance of SOEs

10.00 – 11:15 **India Focus 1: The new Guidelines on SOE corporate governance in India**

**Chair:** Mr. K.D. Tripathi, Joint-Secretary, Department of Public Enterprises

#### *Main speaker :*

Mr. Arun Balakrishnan, Chairman and Managing Director,  
Hindustan Petroleum Corporation Limited

#### **Panel discussion:**

- Dr. S. M. Dewan, Director General, SCOPE
- Mr. B K Patnaik, Principal Secretary, Department of Public Enterprises, Govt. of Orissa
- Mr. Morten Kallevig, Deputy Director General, Ministry of Trade and Industry, Norway
- Mr. YRK Reddy, Chairman, Yaga Consulting Pvt Ltd & Academy of Corporate Governance

#### *General Discussion*

**Background:** The Ministry of Heavy Industry and Public Enterprises of India has published the “Guidelines on Corporate Governance for Central Public Sector Enterprises” in June 2007 (available on the website of the Department of Public Enterprises, www.dpe.nic.in). These are voluntary in nature but should be implemented by all CPSEs (Central Public Sector Enterprises) by June 2008. Discussion in this session will focus on challenges in implementing these new Guidelines.

11:15– 11:45 **Coffee/Tea Break**

11:45 – 13:00 **India Focus 2: The role of competition in fostering SOE efficiency**

**Chair:** Mr. Rainer Geiger, Deputy Director, Directorate for Financial and enterprise Affairs, OECD

**Main Speaker:**

Ms. Pavithra Suryanarayana, Consultant, World Bank

**Discussants:**

- Mr. Arup Roy Choudhury, Vice-Chairman, SCOPE and Chairman & Managing Director, National Buildings Construction Corporation Limited
- Mr. G K Agarwal, Executive Director, HR & Power Management Institute, National Thermal Power Corporation Limited
- Mr. K. Padmakumar, Public Sector Restructuring & Internal Audit Board Industries Department, Government of Kerala
- Dr. R.K. Mishra, Institute of Public Enterprises

**General Discussion**

**Background:** The World Bank is in the process of developing a review of the corporate governance of SOEs in India. This review will assess the impact of the implementation of the new Guidelines on Corporate Governance for Central Public Sector enterprises after one year. The first part of this review is focusing on the role of competition in fostering SOE efficiency. The World Bank will present and discuss first results of this preliminary study.

13:00 – 14:30 **Keynote address:**

**“Challenges in converging towards IFRS for SOEs”**  
by Mr. Richard Rekhy, COO of KPMG, New Delhi

**Lunch** (hosted by KPMG, India)

## Wednesday 25 June 2008 - Afternoon Session

### “Transparency and disclosure and Equitable treatment of minority shareholders”

#### 14:30 –15:15 **Landscape: Recent policy reforms and main challenges in SOE governance**

**Chair:** Mr. John Lim, Chair, Asian Network on Corporate Governance of SOEs and President, Singapore Institute of Directors

##### ◆ *Tour de table* on recent policy reforms on SOE governance in Asia

Dr. Jos Luhukay, Chairman, **Indonesia** National Committee on Corporate Governance

Mr. Fuad Azim Hashimi, President & CEO, **Pakistan** Institute of Corporate Governance

Mr. J. J. Moreno, Vice-President, **Philippines** Stock Exchange

Dr. Areepong Bhoocha-oom, Director General, State Enterprise Policy Office, Ministry of Finance, **Thailand**

#### 15:15 – 15:45 ◆ **Update on OECD and World Bank work in the area of SOE governance**

##### **The WB SOE Review of Bhutan**

by Dr. David Robinett, Corporate Governance Unit, World Bank

**Background:** The World Bank is undertaking SOE Reviews using the OECD Guidelines on Corporate Governance of SOEs as a reference. Main results of one of these reviews, carried out in Bhutan, will be presented in order to demonstrate the interest of such reviews and lessons learnt for other Asian economies.

##### **The OECD Transparency and Accountability Guide for State Ownership**

by Dr. Mathilde Mesnard, Economist, Corporate Affairs Division, OECD

**Background:** The OECD has just finalized a “*Transparency and Accountability Guide for State Ownership*”. This Guide is intended to facilitate the practical implementation of the *OECD Guidelines on Corporate Governance of State-Owned Enterprises*. It is focused on ensuring a high quality of transparency and accountability, which is the very basis of any sound corporate governance regime. The Guide provides viable policy-options and a “roadmap” of the practical steps that might be taken to implement the *SOE Guidelines*, pointing at typical difficulties, risks and hurdles that may be encountered during the implementation process. It also provides examples that illustrate the implementation of provisions and can serve as references and inspiration to governments that are confronted with similar challenges. The development of this Guide benefited from a consultation with non-OECD economies, including with a number of representatives from Asian economies. The main elements of this Guide will be presented, together with some advice on how it could be used by ownership entities and other policy makers to improve the transparency and accountability of SOEs and the state as an owner.

#### 15:45 – 16:00 **Coffee/Tea Break**

16:00 – 17:00 **Theme I: Setting objectives for SOEs**

**Chair:** Mr. Ashok Chandra, Chairman, Task Force on MOU, **India**

**Speaker:**

Dr. Sharat Kumar, Adviser, Department of Public Enterprises, **India**

**Discussant:**

Mr. Elias Ahmed, Additional Secretary, Ministry of Industry, **Bangladesh**

**General Discussion**

1. What is an ownership policy and how to develop one?
2. Is it useful and feasible to develop specific targets for the ownership entity(ies)?
3. How to define and review SOE mandates?
4. What is the appropriate process to agree on the individual SOEs' objectives and yearly targets?

**Summary of Discussion by the Chair**

**Background:** Accountability can be greatly facilitated by a process of performance benchmarking against clearly defined objectives. Since state ownership is often characterized by vague, complex or contradictory objectives, improvement in setting objectives is typically the very first step towards better accountability. This requires defining objectives at different levels: firstly for the state as an owner, with the "ownership policy" for high-level and long-term objectives and then specific yearly targets; secondly for the SOEs themselves, with their high level mandates, then their yearly objectives with specific performance indicators.

17:00 – 18:00 **Theme II: Monitoring and Reviewing SOE Performance**

**Chair:** Mr. S. Behuria, Chairman, SCOPE and Indian Oil Corporation Ltd., **India**

**Speaker:**

Mr. Selvendran Katheerayson, Senior Vice-President, Transformation Management Office,  
Khazanah Nasional Berhad, **Malaysia**

**Discussant:**

Mr. G. Ramachandran, Director, Department of Public Enterprises, **India**

**General Discussion**

1. How to ensure appropriate on-going review of SOE performance by the ownership entity(ies)?
2. What are the essential components of annual performance reviews?
3. What are the processes involved and how to ensure appropriate balance, taking due consideration to the costs and benefits of additional information requirements for SOEs?
4. How to develop appropriate benchmarking?

**Summary of Discussion by the Chair**

**Background:** The State's obligation to review the performance of their portfolio companies is central

to the OECD Guidelines: “*Its prime responsibilities include setting up reporting systems allowing regular monitoring and assessment of SOE performance*” (Guideline II.F.3.). To review performance effectively, the ownership entity must first ensure that it has access to accurate and relevant information on a timely basis, and monitor the performance of portfolio companies both on an ongoing and annual basis. The system for **ongoing performance review** tracks and reviews performance on a regular basis, ensuring early identification of problems and opportunities and allowing reacting promptly on under-performance. The **annual performance review** requires in-depth analysis by the ownership entity of the SOE performance. Ownership entities should also strive to **benchmark SOE performance**, i.e. compare them with relevant peers in the same industry, of similar size and subject to similar complexity and risk, from the private or the public sector, domestic or foreign.

19:00

**Dinner** (hosted by NFCG)

## Thursday 26 June 2008

9:00 – 10:00

### **Theme III: Auditing Performance**

**Chair:** Mr. Ved Jain, Chairman, ICAI, **India**

**Speaker:**

Mr. Rana Assad Amin, Joint Secretary, Ministry of Finance, **Pakistan**

**Discussant:**

Ms. Lopa Rahman, Corporate Governance Project, **Bangladesh** Enterprise Institute

#### **General Discussion**

1. What are the key elements of a robust auditing system for SOEs?
2. How to reinforce the role of internal audits in SOEs?
3. What are the necessary provisions and good practices to ensure the independence of external auditors?
4. What respective roles should play external independent auditors and state auditors?

#### **Summary of Discussion by the Chair**

#### **Background:**

Auditing performance provides credibility to the performance indicators and review process, ensuring a solid basis for the overall accountability system. To ensure an overall robust auditing system, it is important to clearly define the respective roles of the three different types of audits, i.e. internal, external and state audit, in order to avoid duplication and promote complementarity. The audit committee plays a central role in supporting and overseeing the three types of audit. Appropriate coordination and communication has to be ensured among the board, external and internal auditors. **Internal auditors** constitute the first level of control. They can play an important role by scrutinizing and contributing to the improvement of governance practices, reporting routines, risk management and internal control processes. The Guidelines also recommend that “*SOEs, especially large ones, should be subject to an annual independent external audit based on international standards*” (Guideline V.C.). The annual **external audit** shall provide the board and the shareholders with an independent, critical and objective report to ensure that accounts fairly represent the financial position and performance of the company in all material aspects. It is often the case that at least large non-listed

SOEs are subject to audit by **state audit institutions** (SAIs).

10:00 – 11:00 **Theme IV: Reporting on SOE performance at the aggregate level**

**Chair:** Mr. Morten Kallevig, Deputy Director General, Ministry of Trade and Industry, **Norway**

**Speaker:**

Ms. Thi Phuong Thuy Tran, Deputy Director, State Capital Investment Company (SCIC), **Vietnam**

**General Discussion**

1. What are the benefits of developing aggregate reports on state ownership?
2. How to get organised within the ownership entity(ies) to ensure a successful development of aggregate reports?
3. How to structure reporting to Parliament to make it useful and effective, i.e. to ensure a “disclosure dynamic”?
4. What could be the role of the media and how to encourage pro-active communication with them?

**Summary of Discussion by the Chair**

**Background:** The Guidelines provide a number of recommendations regarding reporting on performance, covering the publication of aggregate reports, web-based communication and reporting to Parliament. **Aggregate reports** are short, easy to read and regular reports developed by the ownership entities and providing the general public with value adding, concise and accessible information about the overall performance of the state sector. They are key communication tools and trust-building instruments directed to the general public, Parliament and the media. The actual process of developing these reports helps clarifying policies, making information consistent and improving internal reporting systems. Aggregate reports are also useful for building consensus on specific issues and sensitive policy choices. In addition to publishing aggregate reports, **web-based communication** is a powerful means of ensuring transparency towards the general public. **Reporting to Parliament** is another important element of the overall accountability framework, as Parliaments represent the ultimate owners of SOEs, i.e. the general public. It requires a process of compilation, checking, reviewing and questioning that includes a large number of parties. Accountability is achieved through their interaction in what can be viewed as a “disclosure dynamic”.

11:00 – 11:30 **Coffee/Tea Break**

11:30 – 12:30 **Theme V: Disclosure by SOEs**

**Chair:** Mr. P.D.Sudhakar, Additional Secretary, Ministry of Corporate Affairs, **India**

**Speaker:**

Mr. Jeremias Paul Jr., Under Secretary, Ministry of Finance, the **Philippines**

**Discussant:**

Mr. Naresh Kumar Jain, Secretary and CEO, ICSI, & Member, Board of Trustees, NFCG, **India**

Mr. Karma Yonten, CEO of Druk Holdings, **Bhutan**

### ***General Discussion***

1. What are the main challenges in terms of SOE transparency?
2. How to review the disclosure policy of the state for its portfolio company?
3. What should be the main elements of such a policy?
4. What mechanisms could encourage effective implementation of transparency requirements by SOEs?

### ***Summary of Discussion by the Chair***

**Background:** To be transparent as a shareholder, the state must ensure that appropriate information is disclosed at the SOE level. This will allow the state itself to carry out its ownership function, the Parliament to play its oversight role, the media to raise awareness on relevant issues, and the general public to get a clear picture of SOE performance. The Guidelines provide a number of recommendations in this regard with the underlying objective of ensuring that SOEs are as transparent as publicly traded corporations. To ensure appropriate disclosure and transparency at the SOE level, the state as an owner needs first to **develop a coherent disclosure policy** for its portfolio companies, identifying what information has to be disclosed, how and to whom, and the procedures for ensuring its quality. Specific mechanisms could be put in place to **encourage and monitor effective implementation of transparency requirements by SOEs.**

12:30 –  
14:00

**Lunch / Break**

14:00 – 15:00

## **Theme VI: Equitable treatment of minority shareholders**

**Chair:** Dr. T.C. Nair, SEBI, **India**

**Speaker:**

Mr. Abdul Wahab Jaafar Sidek, CEO, Minority Shareholder Watchdog Group, **Malaysia**

**Discussant:**

Mr. Manoj Arora, Director, Ministry of Corporate Affairs, **India**

Mr. Sumant Batra, Senior Partner, Kesar Dass B & Associates, **India**

### ***General Discussion***

1. What are the main challenges in ensuring an equitable treatment of minority shareholders in SOEs?
2. What are the key provisions and mechanisms to protect minority shareholder against abuses?
3. How to encourage minority shareholders representation in boards?
4. What is the role of the ownership entity in ensuring the equitable treatment of minority shareholders?

### ***Summary of Discussion by the Chair***

**Background:** **Abusive related party transactions** are frequently reported as one of the most serious breaches of good corporate governance around the world. The Guidelines highlight the importance for the state as an owner to ensure **equitable treatment of all shareholders** by SOEs. Building up a reputation of a transparent, predictable and fair owner will have a significant impact on the state's future capacity to attract outside funding as well as on the valuation of SOEs. The state as a shareholder should "tie its own hands" and ensure a clear protection of minority shareholders. An essential prerequisite is to strongly establish and clearly articulate the duty of loyalty of SOE board members

towards the SOE itself and to all its shareholders. It is then necessary to provide a consistent menu of the usual mechanisms to prevent abuse of minority shareholders with a reasonable balance of *ex ante* and *ex post* mechanisms and taking due consideration of the legal characteristics of the country concerned. This would include pre-emptive rights, qualified majority for certain decisions, capacity for minority shareholders to call for a shareholder meeting, access to redress, etc. The state could also develop nomination processes that are favourable to minority shareholders representation in boards and encourage their active participation in general shareholder meetings.

15:00 – 15:30

**Coffee break**

15:30 – 17:30

**Drafting session**

**Chair:** Mr. John Lim, President, Singapore Institute of Directors, **Singapore**

Discussion on a draft of the four first chapters of the Regional Policy Brief giving recommendations regarding topics covered in the previous meeting of the Network.

Discussion on the main elements to be included in the remaining two chapters.

17:30 - 18:00

**Conclusion and next steps**

Main highlights from the meeting by Dr. Mathilde Mesnard, Economist, Corporate Affairs Division, OECD:

Discussion on drafting process and future work of the Network

Closing of the meeting by Ministry of Corporate Affairs, DPE and SCOPE

## Network on Corporate Governance of SOEs in Asia

### Organisation of the Network meeting

This meeting will cover **two chapters of the OECD Guidelines** on Corporate Governance of State-owned Enterprises, namely the Chapter V on Transparency and Disclosure and Chapter III on Equitable Treatment of Shareholders.

The first morning will focus on current reforms in India regarding the corporate governance of SOEs. The remaining time will be the meeting of the Network *per se*.

An **introductory session** will set up the landscape of SOE governance in Asia. A selective *Tour de Table* will be organised, with one representative from four countries being asked to briefly present the recent policy reforms in his/her country related to SOE governance. Each presentation will be strictly limited to 10 minutes and should focus exclusively on policy reforms. Presenters are asked to use maximum 3 slides. Presenters might also circulate in advance of the meeting or during the meeting descriptive documentation on the state owned sector.

The remaining discussion has been organised around **main themes** covering together the elements of the two chapters of the Guidelines, namely setting objectives, monitoring and reviewing performance, auditing performance, reporting on performance, disclosure by SOEs, and the equitable treatment of minority shareholders.

**Main speakers** are invited to launch the discussion for each session. Their role is to highlight the main challenges related to the specific theme, provide some elements to answer the related questions, and illustrate with their country experience. The objective is to stimulate reflection and encourage the exchange of views and experience on these complex issues among all the Network participants. These initial presentations should last no more than 15 minutes each. **Discussants** are then invited to comment (in 5 to 10 minutes) on the main speakers' presentations reflecting on their own country experiences.

The discussion will then be open for **all Network participants** to react, expose their views and systematically discuss the issues raised in the initial presentation and related to the questions provided in the agenda. All Network members are encouraged to actively and openly participate in discussions to provide the whole Network with their country experience and vision for reforms. The objective of the discussion is to lead to a general understanding on what should be the main recommendations to be formulated in the policy brief.

**Chairs** are invited to encourage open discussion among different Network participants, to maintain the focus on the theme of their session and to be strict in managing time.

A **drafting session** will allow discussion of the four draft chapters the Regional Policy Brief which will have been circulated to all the Network participants ahead of the meeting. They will be asked to provide the OECD Secretariat with comments and suggestions in order to submit a more advanced version to the next meeting of the Asia Corporate Governance Roundtable in June.