

Summary note

OECD Roundtable spurs governance reform in Russia

The OECD/World Bank sponsored Russian Corporate Governance Roundtable met in Moscow 15-16 November to assess the quality of disclosure in Russian enterprises. Building on a process established 18 months ago, high-level government officials and business leaders met with international experts and investors to consider how to improve transparency and disclosure.

The key findings of the Roundtable were:

- ◆ **Russia has witnessed widespread expropriation by controlling agents.** Improvements are required in the disclosure of ownership structures, voting rights, the identity of management and the board of directors. Significant improvements are required in the frequency and timing of disclosure in order to allow users to assess a company's governance and most importantly, to provide an opportunity to catch illicit transactions early-on.
- ◆ **In Russian companies, attitudes towards transparency are generally negative.** The central message is that if management is not ready to have transparent reporting on the financial aspects of the entity, the accountant and the auditor will face a much harder task. So, changing company attitudes and culture will be necessary, if the profession is going to be asked to deliver the goods.
- ◆ **While a handful of Russian enterprises have exemplary disclosure, a large number fall significantly short of what international investors expect.** An audit in Russia does not appear to provide the same assurances that one would expect in more developed financial markets. Difficulties associated with different systems of accounting, punitive tax system and complex and often non-transparent ownership structures are compounded by negative attitudes towards transparency. Given this situation, auditors, in particular the large international firms, will need to exercise greater vigilance when putting their names to Russian accounts.
- ◆ **Russian directors need to take greater responsibility in overseeing disclosure.** Boards are not yet able to provide the assurances that investors would like to have. Monitoring systems are not in place, and appropriate accounting, audit standards are not yet applied in a uniform way. Boards are dominated by controlling shareholders and directors are not fully aware of their fiduciary duties to other shareholders.
- ◆ **Audit committees in Russian companies will need to become more frequent and better organised.** In some countries, audit committees serve to provide further assurances to investors regarding systems of control and the veracity of information. While there is a trend towards introducing audit committees in some Russian companies, the structure and responsibilities of audit committees appear to differ, in particular as regards the ability of committees to make objective, independent judgements. Attempts to use the Review Commission, prescribed by Russian law, as a substitute for audit committees in Boards are to be encouraged but their success is not granted.
- ◆ **Disclosure requirements alone are not a panacea.** Effective disclosure-based regulation depends upon a multitude of factors. It requires a rule of law environment, interested and engaged investors and a variety of other factors that require strengthening in Russia. Regulatory institutions are still unable to exercise effective oversight and much needs to be done to strengthen them. International standards are useful as reference points but their application in Russia is a great challenge.

A number of related events took place during the 3rd meeting of the Roundtable

- ◆ **The accounting and audit profession takes steps to improve disclosure in Russia.** Senior members of the International Forum on Accountancy Development (IFAD) met with government representatives and accounting/audit associations to discuss their "vision" for reform and its implications for Russia. The OECD is an active member of the Forum.
- ◆ **An agenda for action is discussed for the first time.** The first draft of the Roundtable's White Paper on corporate governance in Russia was discussed. It recommends: the adoption of fine-tuning legislation by the parliament, enforcement of existing laws by courts and administrative bodies, more rigorous supervision by financial market participants and private sector professional organisations (such as accountants). The Paper, which uses the OECD Principles as a conceptual reference, will be submitted to Russia's government, private decision-makers as well as the international financial institutions before the end of 2001. It will also provide a major input into the process of drafting the Russian Corporate Governance Code.
- ◆ **Major Russian companies and institutional investors express lack of confidence in the market.** International institutional investors representing over US\$2.5 trillion met with senior representatives of eight of the largest Russian companies to discuss common concerns about the quality of corporate governance in Russia. The unprecedented meeting, called by the Investor Responsibility Task Force of the OECD/World Bank Private Sector Advisory Group on Corporate Governance (PSAG), focused on the opportunity for Russian companies to redress the enormous under-valuation of Russian companies by the capital markets that has resulted from the lack of investor confidence. The Task Force, under the leadership of Ira Millstein, Chairman of the PSAG, urged Russian corporations to view corporate governance as a way of increasing their value and as a tool in their international development. The international institutional investors and the companies decided to pursue their private-to-private dialogue with the aim of arriving at a set of verifiable commitments.
- ◆ **A corporate governance website for Russia was launched at the Roundtable meeting.** The website - <http://www.corp-gov.org/> - was developed and will be maintained by the Russian Investor Protection Association, in the context of the Roundtable's work.

Russian Code builds on the OECD Principles

The Federal Commission on the Securities Market launched a broad consultative process around the drafting of a Corporate Governance Code. The effort began in St. Petersburg on 20 November, with the first meeting of the Co-ordination Council for Corporate Governance. The OECD was given a leading role in the discussion that set the Principles as the main international benchmark for Russian practices. The Commission's ambitious plans could become a major push for better standards in Russia. The main message was that the emphasis of the Commission should be on improving implementation of existing laws and using its power to impose sanctions on transgressions of the rules.

Conclusion: The work of the OECD/World Bank sponsored Russian Corporate Governance Roundtable is having an impact at the highest level. President Putin, in a recent meeting with OECD Secretary-General Johnston, addressed corporate governance as a priority for improving investment. Extensive co-operation with multilateral partners and numerous pressure points in the private and public sectors are bringing results: a constituency for reforms in Russia is starting to appear and gain prominence.