The OECD Guidelines on Corporate Governance of State Owned Enterprises

BIS / FSI – OECD Seminar on Corporate Governance of Banks in Asia

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Outline

1. Rationale for developing the Guidelines
2. Process and main characteristics
3. Six chapters of the Guidelines
4. A new pillar to the OECD corporate governance work
5. The Asian Network on corporate governance of SOEs
1. Rationale for developing the Guidelines

- Scale and scope of the state sector
- Impact of SOEs on economic performance
- Pressure for reform deriving from globalization and liberalization
- Specific governance challenges
- Expected benefits from improvements of SOE governance
- Strong demand from non-OECD economies
2. Process and main characteristics

- Extensive and inclusive consultations with relevant players from OECD members and non-member countries (Paris 2004)
- Primarily directed to governments
  - regarding their ownership function
  - regarding their role in market regulation
- The Guidelines:
  - are non-binding and non-prescriptive
  - are complementary to the *OECD Principles of Corporate Governance*
  - do not preclude/alter privatisation policies
  - are based on a *Comparative Report*
3. Six chapters of the Guidelines

3.1 Ensure a level-playing field with the private sector
3.2 Reinforce ownership function within state administration
3.3 Equitable treatment of minority shareholders
3.4 Relations with stakeholders
3.5 Improve transparency of SOEs’ objectives and performance
3.6 Strengthen and empower SOE boards
3.1 Ensure a level-playing field with the private sector

- Separate regulatory and shareholding function
- Transparency of special obligations
- Harmonization in legal forms
- More flexibility in capital structures
- Competitive conditions in access to finance
3.2 Reinforce ownership function within the state administration

- Centralisation / coordination of ownership function
- Clear and disclosed ownership policy
- No direct interference in day-to-day activities
- Independence of boards
- Accountability
- Effective exercise of ownership rights
3.3 Equitable treatment of minority shareholders

- Important for State’s capacity to attract outside funding
- Impact on valuation of SOEs
- Relevant for the general perception of the State as an owner
- Prevents the State pursuing objectives outside the SOE’s interests
3.4 Relations with stakeholders

- Respect stakeholders’ rights
- Report on stakeholder relations
- SOE Boards to develop internal codes of ethics
3.5 Improve transparency of SOEs’ objectives and performance

- Consistent and aggregate disclosure
- Efficient internal audit
- Independent external audit
- High quality standards for accounting and audit
- Disclosure of material information, including financial assistance from the state, transactions with related entities and risk factors
3.6 Strengthen and empower SOE boards

- Clear mandate and full responsibility
- Structured and skill-based nomination process
- Monitoring of management
- Board composition should facilitate independent judgement
- Systematic evaluation of board
4. A new pillar to the OECD CG work

- Basis for structured reform in OECD and non-OECD countries
- Guidelines facilitate benchmarking
- Increase awareness of important values on state`s balance sheet
- Dissemination and discussion in non-OECD countries
  - Priority topic in both the Asian and Russian Roundtable
  - Dedicated country meetings
5. The Asian Network on CG of SOEs

- Initiated in May 2005 as new activity of the Asian Roundtable on CG, in order to:
  - Raise awareness on CG of SOEs
  - Evaluate existing CG policy framework of SOEs
  - Influence policymaking in Asia by providing a forum for peer policymakers
  - Support CG reforms in SOE

- The Asian Network will meet in 2006 (Singapore, May 2006) and 2007 to discuss each of the 6 chapters of the Guidelines

- Intention to draft (i) a Policy Brief providing concrete policy recommendations, and (ii) a comparative report
The *Guidelines* can also be downloaded on our website at:

www.oecd.org/daf/corporate-affairs/soe