

DRC/ ERI

Enterprise Research Institute (ERI) of the
Development Research Center of the State
Council of PRC



2005 Policy Dialogue on Corporate Governance in China

Hosted by

**Enterprise Research Institute (ERI) of the
Development Research Center (DRC)**

and

**Organisation for Economic Co-operation
and Development (OECD)**

in partnership with

The Government of Japan

A G E N D A

*Hilton Hotel
1 Dong Fang, North Dong Sanhuan Road
Beijing 100027, China*

19 May 2005

2005 Policy Dialogue on Corporate Governance in China

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Registration and Welcome

08:15 – 08:45 Participants registration

08:45 – 09:15 Opening Session

Opening Remarks

- **Mr. LIU Shijin, Vice President of Development Research Center (DRC)**
- **Mr. Mats Isaksson, Head, Corporate Affairs Division OECD**

09:15 – 10:45 Session 1: Overview of Recent Developments on Corporate Governance in China

Presentations

- **Mr. CHEN Xiao Hong, Director General, ERI / DRC** : Current Developments in Corporate Governance
- **Professor HU Ruyin, Shanghai Stock Exchange Research Centre**: Corporate Governance of State Controlled Listed Companies: Problems, Progress and Prospect
- **Mr. Lars-Johan Cederlund, Chair of the OECD Working Group on Privatisation and the Corporate Governance of SOEs**: 2005 OECD Guidelines on Corporate Governance of State-Owned Enterprises

General Discussion

10:45 – 11:00 Coffee break

11:00 – 12:30 Session 2: The State Acting as an Owner

Presentations

- **Dr. ZHANG Delin, Director General, Bureau of Policies, Laws and Regulations, SASAC**: The function and Its Law Bases of SASAC
- **Mr. Jean-Louis Girodolle, Vice-Director, French State Participation Agency**: The French reforms
- **Dr. Pallapa Ruangrong, Fiscal Expert, Ministry of Finance, Thailand**: Practical experiences from Thailand

General Discussion

12:30 – 13:30 Lunch

13:30 – 14:45

Session 3: Operation of SOE Boards: composition and nomination of Boards

Presentations

- **Professor LU Tong, Chinese Centre for Corporate Governance:** The regulatory framework for nomination of SOE board members in China
- **Dr. LI Zhaoxi, Deputy Director ERI / DRC:** How it works in practice
- **Mr. Ronald N. Robertson, Chairman of the Canada Deposit Insurance Corporation:** The Canadian perspective

General Discussion

14:45 – 16:00

Session 4: Transparency and Disclosure in SOEs; Equitable Treatment of (Minority) Shareholders

Presentations

- **Mr. MA Zhengwu, Chairman of the Board and CEO, China Cheng Tong Holding Co.:** Disclosure and Transparency in SOEs
- **Mr. Philip Smith, Branch Manager, Government Businesses and Private Financing Advice Unit, Department of Finance and Administration:** The Australian experience
- **Mr. Tariq Kirmani, Chairman & CEO Pakistan International Airlines:** Transparency and Disclosure in SOEs - Equitable Treatment of (Minority) Shareholders

General Discussion

16:00 – 16:15

Coffee break

16:15 – 17:30

Session 5: The role and tasks of the different agencies involved in regulation and supervision of SOEs

Presentations

- **Mr. JIA Xiaoliang, Deputy Director General, Bureau of Enterprise Reform, State-owned Assets Supervision and Administration Commission of the State Council (SASAC):** How SASAC supervise SOEs' Decision-making and Performance
- **Mr. YANG Hua, Director General, Dept. of Listed Company Supervision, China Securities Regulatory Commission (CSRC):** The regulatory framework of State Controlled Listed Companies.
- **Mr. Roberto Ulissi, Director General for Banks, Financial Markets and Legal Affairs, Ministry of Economy and Finance:** The Italian experience

General Discussion

17:30 – 18:00

Concluding Session

Moderators: **Mr. CHEN Xiaohong**, Director General, Enterprise Research Institute of DRC (DRC/ERI), and **Mr. Mats Isaksson**, Head, Corporate Affairs Division, OECD

- Wrap up of the meeting and recommendations for future steps
- Concluding remarks

18:30

Dinner

The 2005 Policy Dialogue on Corporate Governance in China
Beijing, China, 19 May 2005

Notes to the agenda and issues for discussion

In China State-Owned Enterprises (SOE) represent a substantial part of GDP, employment and market capitalisation. Moreover, SOEs are often prevalent in utilities and infrastructure industries, such as energy, transport and telecommunication, whose performance is of great importance to broad segments of the population and to other parts of the business sector. Consequently, the governance of SOEs will be critical to ensure their positive contribution to China's overall economic efficiency and competitiveness. OECD experience has shown that good corporate governance of SOEs is an important prerequisite for economically effective privatisation, or in the case of China equitisation, since it will make the enterprises more attractive to prospective buyers and enhance their valuation.

The establishment of SASAC landmarks China's efforts to reform the way in which it organises and manages its SOEs. The OECD wishes to share its experiences with China in order to support the aforementioned reforms. The 2005 Policy Dialogue on Corporate Governance in China coincides with the launch of the 2005 OECD Guidelines on Corporate Governance of SOEs, which is a set of non-binding guidelines and best practices on corporate governance of SOEs. These Guidelines should be viewed as a complement to the OECD Principles of Corporate Governance on which they are based and with which they are fully compatible.

The 2005 Policy Dialogue on Corporate Governance in China may therefore be a perfect event to exchange experiences between China and the OECD on corporate governance of SOEs. The very recent launch of the Guidelines provides for the right momentum for this dialogue and may well lead to new insights for China, OECD member states and non-member states.

Session 1: Overview of Recent Developments on Corporate Governance in China

The purpose of this session is to get a deeper understanding about the recent developments on corporate governance in general in China. Research results such as those included in the Shanghai Stock Exchange Research Centre's reports may be used as source of reference to understand the depth and scope of current issues. The 2005 OECD Guidelines on Corporate Governance of State-Owned Enterprises are the result of a lengthy consulting process. The presentation will explain background and content of the Guidelines.

Issues for discussion

- What is the impact of the proposed amendments to the Company Law on corporate governance of SOEs?
- What are currently the key corporate governance challenges in China?
- What are the differences between corporate governance issues for equitised listed companies and SOEs?
- What are the key corporate governance issues for SOEs identified by the OECD member states?

Session 2: The State Acting as an Owner

The Guiding Principles for State-Owned Assets presented by the Sixteenth Party Congress in 2002 and the creation of the SASAC are important steps towards reinforcing the role of the state as an owner and

shareholder. The fundamental idea underpinning SASAC is to exercise ownership rights in a centralized and unified manner, while complying with the Company Law. The objective of state supervision has shifted from direct intervention in enterprise management to capital oversight.

At this stage several policy priorities appear key for the development of SASAC: a) creating and enhancing the role of boards in SOEs; b) improving recruitment procedures for SOE board members as well as performance evaluation; and c) restricting irregular behaviour by the state as a shareholder.

Issues for discussion

- How and to what extent will SASAC be accountable for its exercise of the ownership of SOEs?
- What are the challenges for the state to exercise its ownership rights as a true owner?
- How will SASAC deal with the relationship between the public fiscal budget and the SOE capital budget?
- What are the challenges regarding the regulatory framework of state asset management?

Session 3: Operation of SOE Boards: composition and nomination of Boards

This session will focus on identifying the policy priorities for Chinese policy makers and / or SASAC regarding the creation of boards in SOEs as well as the enhancement of the role of already existing boards in SOEs. Upon its establishment in 2004 SASAC obtained the right to nominate boards. However, most board members were appointed before it received this authority. Currently SASAC is carrying out a pilot project on board nomination in seven SOEs. In doing so SASAC should consider international best practice. The pending reform of the Company Law should also more clearly define the role for independent and non-executive directors as well as the role of public servants in their capacity as board or supervisory board members of listed companies representing the state. Other issues to be discussed may be the improvement of recruitment procedures for SOE board members as well as their performance evaluation.

Issues for discussion

- What is the rationale for still having supervisory boards (in their current forms) in SOEs?
- How does SASAC exercise its right (obtained in 2004) to nominate board members?
- What are the preliminary results of the pilot project by SASAC on board nomination in seven SOEs?
- What is the international best practice regarding SOE boards nomination and evaluation?

Session 4: Transparency and Disclosure in SOEs; Equitable Treatment of (Minority) Shareholders

The low quality of information disclosure remains one significant weakness of corporate governance practices of listed companies and SOEs in China. The current disclosure is often considered as not reliable, with emphasis put on “form rather than substance”. This poor disclosure is due to the lack both of proper internal control systems and of effective legal sanctions for bad disclosure, as the mainly administrative sanctions are not enough to deter false disclosure. But this is also due to improper administrative intervention where disclosure serves other objectives than giving relevant and proper information on the company, such as maximizing the number of listings, etc. The pending reform of Company Law should strengthen shareholder rights with respect to information as well as reinforce the position of external auditors and improve company accounting. The session will discuss what are the main reforms needed to improve disclosure and which are the main obstacles to such an improvement.

Adequate disclosure is a fundamental condition to avoid abuse of minority shareholders. More generally, equitable treatment of minority shareholders is critical for the future state capacity to sale further sales on the market. Moreover, as the state is by far the most important controlling shareholder in China, its practice

regarding equitable treatment of minority shareholders will set the tone for practices in this regard in the business sector. Under the current Company Law, controlling shareholders have important powers and the pending reform should reinforce the rights of minority shareholders.

Issues for discussion

- Which are the main priorities in improving disclosure by SOEs?
- What could/should be the role of the SASAC in pushing for such an improvement?
- How will the government and / or SASAC restrict irregular behaviour by the state as a controlling shareholder?
- How the current reforms will reinforce minority shareholders' rights?

Session 5: The role and tasks of the different agencies involved in regulation and supervision of SOEs

The accountability of regulatory agencies overseeing SOEs needs to be clarified and the division of responsibilities between them needs to be clearly identified. A clear delineation of responsibilities may benefit efficiency and effectiveness of administrative enforcement. The division of responsibilities between the SASAC and the CSRC is of particular importance. In the end both the SASAC and the CSRC report to the state, but this does not necessarily make them accountable. The accountability of the SASAC and the CSRC, rather than just their reporting lines, needs to be clearly defined.

Issues for discussion

- What are the different governmental and other agencies and organisations (including, but not limited to, SASAC, CSRC, stock exchanges, regional or municipal owners of SOEs) involved in regulation and supervision of SOEs?
- Is there a clear distinction between the responsibilities of each of these actors?
- To whom are the actors ultimately accountable?
- Is it clear what will happen in case of a conflict of interest between any of the actors? For example between SASAC and CSRC in case of an IPO of a SOE
- What would be the best place to regulate this issue of division of tasks and accountability of the different actors involved in SOEs? The (revised) Company Law, stock exchange regulations, Securities Law, or a combination?