The Third Meeting of the Russian Corporate Governance Roundtable
THE ROLE OF DISCLOSURE IN STRENGTHNING COPRORATE GOVERNANCE AND ACCOUNTABILITY
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WELCOMING REMARKS BY

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Ladies and Gentlemen,

It is a great honour for me to address this third meeting of the Russian Corporate Governance Roundtable. The presence of so many distinguished experts and senior decision-makers from across Russia, OECD countries and various international organisations attests to the importance of the issues we are here to discuss. It also shows a commitment to engage in a constructive policy-dialogue between policymakers and representatives of the business and investment community, as well as civil society. Through this dialogue we are not only advancing corporate governance reform, but also building mutual understanding and confidence while learning from each other's experience.

This Roundtable effort is undertaken in close partnership with the World Bank Group and other multilateral institutions. The presence of senior representatives and experts from our partner institutions is of great importance for the success of our work. And I would like to extend our sincere gratitude to our Russian co-hosts, the Russian Federal Commission on the Securities Market and the Supreme Commercial Court, who have been supporting this effort since the Roundtable was established.

Developing better corporate governance is a process, and changes do not take place overnight. It is therefore important to underline that the Roundtable is itself a process. Our meeting today is part of an ongoing dialogue that began in May 1999 and continued with the second meeting last February, which focused on shareholder rights and equitable treatment. Over the next two days, we will address a particularly important aspect of corporate governance -- information disclosure and its role in strengthening corporate accountability. The need for greater transparency is an issue that the OECD promotes not only in relation to corporate governance, but more broadly in such areas as global and public sector governance. Transparency and accountability are fundamental values underpinning the OECD's commitment to both democracy and a market economy.

It is my hope that the dialogue we embark upon here will continue to play an important role in understanding present corporate governance practices, in providing information about ongoing initiatives and – ultimately – in guiding future reform efforts. In this respect, the Roundtable will endorse a Russian agenda for corporate governance reform as incorporated in Russia's *Corporate Governance White Paper* proposal. This White Paper will be a useful tool for the Russian government and the private sector in their efforts to implement high standards of corporate governance. It will be widely disseminated to OECD Member countries and will become an important benchmark for foreign investors, donors and international financial institutions as they measure performance. At the heart of this important process are the Russian experts from both the public and private sector who are participating in this Roundtable.

During the remainder of these remarks, I would like to say a few words about the importance of corporate governance to economic development, and about the OECD's contribution to improving the corporate governance framework.

I. Why Corporate Governance Matters

So why does corporate governance matter? And why should policy-makers, regulators and the business community care about the quality of corporate governance in their respective countries?

To begin with, corporate governance is a concern for those who want to make sure that corporations have access to the capital that they need for viable investments. The quality of corporate governance influences how well we will succeed in our ambitions to mobilise capital, to allocate this capital efficiently, and to monitor the use of it in individual companies. That is to say that corporate governance influences all stages of the investment process.

A weak corporate governance framework impedes the entire investment process and, ultimately, the private sector's ability to contribute to social and economic progress. Poor corporate governance damages the capacity to mobilise savings; it hinders efficient allocation of capital, and it prevents proper monitoring of corporate assets. These are the core long-standing concerns behind present policy-discussions on corporate governance in OECD countries.

In an international context, good corporate governance is seen as one building block in the construction of a new international financial architecture aimed at diminishing the risk of future financial turmoil. A transparent and effectively monitored market environment for international equity flows enhances the stability of these flows and serves as an early warning system for corporate and financial problems. With this in mind, the Financial Stability Forum has included the OECD Corporate Governance Principles in its compendium of practices that are important in maintaining stability in international financial markets.

Last but by no means least, corporate governance is just one side of a much broader effort to improve governance in our societies. Governance has been recognised as an issue of utmost importance for economic development and for a successful transition. Building sound institutions cannot succeed in the private sector in isolation from developments in the public arena. Good corporations depend on good courts and honest regulators who are responsible and accountable. Democratic institutions and governments depend to a large degree on the prevalence of transparent and honest companies, that do not try to capture government, bribe officials and judges, and undermine the rule of law. In short, good governance means that public and private institutions act efficiently and predictably under the rule of law and provide an enabling environment for economic growth and development.

In Russia, corporate governance improvement is even more important and urgent than in other transition and emerging economies. During a meeting two weeks ago in Paris between OECD Secretary General Mr. Johnston and Russian President Mr. Putin, weak corporate governance was identified as one of the main impediments to investment. The timing for addressing corporate governance issues is ripe in Russia. Why?

- On the macroeconomic side, favourable economic and political conditions during 2000 provide a strong basis for improving the investment framework with industrial growth, lower inflation, a positive balance of payments, and improvements in budget revenues. This may be a powerful incentive for Russian economic agents to look at the value of long-term investments rather than seeking to exploit short-term gains, such as through the expropriation of companies and cash flows. Ironically, the downside of growth is that it can breed complacency in corporate reforms. Sustainable growth requires strong institutions, including corporations. Without institutional growth, higher inflows might be temporary. Such "irrational exuberance", to repeat a famous expression, preceded the 1998 crisis. Instead, regulators should take advantage of this growth period to push for a sustainable improvement of corporate governance standards.

- It has become apparent that without better corporate governance, finance (both foreign and domestic) will not become available to Russian corporations. Equity investment, notably foreign investment, must be increased in order to meet corporate financial needs. Firms need outside funds to implement long-term investment plans and raise their poor productivity.

- If corporate governance does not improve, the domestic equity market will not develop. Improving transparency and disclosure of financial and non-financial information is key in this respect.

- Improvements in corporate governance will hinge on the overall effort to improve the rule of law in Russia. In this regard, it is very important that the court system be strengthened. Independence from regional authorities and business-and-political interests must be ensured through better accountability. Funding mechanisms for the courts should support this independence, not undermine it.

- Additionally, regulators, including the Securities Commission, need to be given the tools to implement the law and should be judged on their implementation track record. Like the judges, it is crucial that they are perceived as independent from the powerful commercial interests that they are supposed to regulate.

- Finally, there might be important conflict of interest when the state is at the same time regulator and market participant or important shareholder. In Russia, such conflicts have sometimes been pervasive. Adequate firewalls need to be built between asset management institutions and regulators. Consistent and transparent policies for asset management need to be preserved.

Through all these policies, the state can actually be a pioneer in introducing better corporate governance standards.

II. OECD's Contribution to Improving the Corporate Governance Framework

The debates of the Russian Roundtable are closely following the lines of the OECD Principles of Corporate Governance. These comprise the building blocks that governments and market participants around the world agree provide the necessary foundation for building good corporate governance.

More important than the Principles themselves is how they are actually used. To this end, the G7 together with the G22 and other international groupings have asked the OECD and the World Bank to work together to improve corporate governance globally.

It is in this context that we are organising, with the World Bank and regional partners, a set of Regional Corporate Governance Roundtables in emerging and transition economies. Last May the Asia Corporate Governance Roundtable met for the second time, and we had our first regional meeting in Latin America at the end of April and in Eurasia just a few weeks ago.

I am pleased to see in this room so many high-level representatives of companies, financial institutions, regulators and judicial authorities actively supporting this effort in Russia. I am also happy to see some senior international investor representatives taking the opportunity to establish a dialogue with corporations: this is key to improving corporate governance. I believe it is a very timely initiative and that Russia is ready to improve information disclosure and strengthen corporate accountability for the benefit of industry and society as a whole. The ambition of the Roundtable is to assist and facilitate this process, helping to establish priorities for reforms.

Again, I would like to express my gratitude to the Russian institutions supporting this effort and in particular, the Federal Commission for the Securities Market, Supreme Arbitrazh Court, Ministry of Finance, Ministry of Economic Development and Trade, and private groups such as the Investor Protection Association. Their leadership in this effort cannot be overestimated. I am pleased to see the presence of such a large number of private sector and stakeholder representatives from across Russia; this shows that the issues we are here to discuss are at the heart of your country's concerns today.

Last, but certainly not least, I would like to thank our partners at the World Bank Group, the United States Agency for International Development, and the Centre for International Private Enterprise as well as the other multilateral institutions supporting this initiative.

I very much look forward to following the discussion over the coming two days, and also to the future work of the Russian Corporate Governance Roundtable.