



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