

Corporate Affairs Newsletter

Building Partnerships for Progress

No. 1 – January 2002

We wish our readers a Happy New Year

I am very happy to welcome you to the first issue of the quarterly Corporate Affairs newsletter. The purpose of this newsletter is to provide you with a regular briefing on the OECD Corporate Affairs activities. Many of you receiving this newsletter are working directly with us in corporate governance, privatisation, accounting and insolvency.

In DAFFE, our key objective is to promote free markets in order to achieve sustainable growth. Corporate Affairs policies are a central component of any strategy to increase investment flows and support economic development. I hope that the present newsletter will become a tool for communicating experiences, strategies and thoughts on corporate affairs globally.

William H. Witherell, Director of Directorate for Financial, Fiscal and Enterprise Affairs

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Our Mission

The Corporate Affairs division was created in 2000, within the OECD Directorate of Financial, Fiscal and Enterprise Affairs. It was established in order to serve an increasing amount of policy work in the areas of corporate governance, privatisation/governance of state-owned enterprises, accounting and audit and insolvency/corporate restructuring. The importance of this work was greatly enhanced by the adoption of the **OECD Principles of Corporate Governance**, which have become the global standard and reference for policy reform. Our mission is to:

1. Promote globally the design and implementation of effective corporate affairs policies and institutional frameworks that allow the corporate sector to lead economic growth, job creation and capital market development in a sustainable way.
2. Support Member and non-member countries in responding to the challenges and opportunities of globalisation in the financial markets and the investment process. Our aim is to identify and analyse in a comparative fashion cutting-edge areas of policy that will enhance the benefits and minimise the costs of globalisation for societies and economies.
3. Facilitate policy dialogue among Member and non-member countries by building and developing leading global or regional fora on Privatisation, Corporate Governance, Corporate Restructuring and Financial Disclosure.
4. Actively and systematically involve in this dialogue corporations, investors and other stakeholders and non-governmental representatives.
5. Develop a wide network and seek active co-operation with other international institutions in order to promote the above objectives.



About Corporate Affairs

By Stilpon Nestor, Head of the Corporate Affairs Division

A great part of the wealth generated in OECD economies is the result of the activity of corporations. Through limited liability, unlimited life-span and a predictable institutional structure, corporations provide a socially advantageous mechanism to pool investment and managerial resources, achieve economies of scale in production and distribution, generate innovation and improve the quantity and quality of jobs. Corporations are institutions whose blueprint is designed and maintained by a highly complex combination of law and contract. Thus, a well functioning legal, regulatory and institutional environment that facilitates the creation, proper functioning and effective exit of companies is crucial for the continuing development of the corporate sector in every economy.

Corporate affairs policies are concerned with the establishment of this framework and its continuous, consistent and coherent upgrading. The responsiveness of this framework to new economic conditions, most importantly the globalisation of the investment process, will become increasingly a key concern of governments. More and more OECD Member countries are taking a "holistic" view of corporate affairs, be it in an implicit or explicit way. In the OECD, the concept of corporate affairs was recognised for the first time as a distinct area of policy in the 2000 and 2001 Programmes of Work. A tangible result has been the creation of our Corporate Affairs Division.

Corporate governance forms the core of corporate affairs policies. The OECD Principles of Corporate Governance and their implementation, both in Member and non-member economies, constitute the heart of our activities. The OECD Principles have been widely accepted as the global benchmark on corporate governance by institutions such as the World Bank and the IMF; they are now one of the 12 global standards for sound financial systems, identified by the Financial Stability Forum;

and they are serving as a reference to numerous efforts in the private sector. The five OECD/World Bank Regional Corporate Governance Roundtables in Asia, Eurasia, Latin America, Russia, and South East Europe translate the Principles into regional priorities and reform agendas around the world. The newly established Global Corporate Governance Forum is a multi-donor facility, aiming to implement these agendas. OECD Member countries have agreed to initiate a discussion and analysis of their own experience with the implementation of the Principles, in view of their expected review in 2005. They have established the OECD Steering Group on Corporate Governance. This is a group of OECD Member country experts that meets regularly to steer OECD work on Corporate Affairs.

But corporate affairs policies also include other important areas. In many Member and non-member economies the state remains an important owner of commercial assets, mostly in the form of wholly or partially owned corporations. Privatisation has been the main method of making these assets more productive. In many countries, privatisation has driven the rapid development of both domestic private sector and capital markets. This has fuelled demand for better transparency and accountability. Thus, privatisation methods and

policies play a defining role in future corporate governance patterns in the private sector. But many governments will remain owners of sizeable assets in the foreseeable future. The way these governments behave as owners impacts on the whole of the economy. *Corporate governance by the state* often underpins the general corporate governance environment for private companies, as state-owned or partially privatised firms are among the largest and most important companies in terms of employment, value added and capital needs. At the same time corporate governance by the state entails a quite distinct category of issues and needs to be treated as a specific area of policy.

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Most notably, it involves delicate issues of separating regulatory from ownership functions within the government. The OECD Working Group on Privatisation and Governance of State-Owned Commercial Assets, serviced by the Corporate Affairs Division, has undertaken two ambitious exercises in this respect:

- A review of privatisation methods and their effectiveness in OECD countries.
- The preparation of Principles and Best Practices for the governance of state-owned commercial assets, which will be an important complement.

Exchanging experiences on *company law* remains an important objective of the OECD's corporate affairs work. A survey of comparative company law reform in OECD Member countries will soon appear as a result of a meeting in Stockholm in 2000. This is a unique product for the use of policy makers and others who want to have a view of the comparative state of company law design. In Stockholm, participants identified a number of issues in this area that need further discussion: the impact of information and communication technologies on company laws; the impact of the legal environment on facilitating start-up company growth; and a comparative view of capital structure legal requirements.

The *abuse of the corporate entity for illicit purposes*, both domestically and internationally, has been a central concern over the last few years. The tragic events of September 11 have greatly increased this concern. Terrorists and other criminals will often hide behind a corporate veil of anonymity. Authorities should be able to pierce that veil when they suspect that it is used to hide or finance illicit activities. But company law and other related regulations render the corporate veil impenetrable in some countries, in particular some offshore financial centres. An important OECD publication on this subject has just appeared ([please see page 8 for more details](#)). It offers three different policy options for pursuing an effective strategy against the misuse of anonymity in corporations. More work in this area is expected to be developed in the coming year, most notably by making the 2001 OECD Report an operational tool for reviewing existing country policies.

Finally, corporate affairs policies address the exit of commercial enterprises, notably through

insolvency procedures. Governments have been increasingly focusing on the effectiveness of exit procedures. They are an important factor of discipline and stability in the financial system

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operation with the ADB and APEC. The Forum of Asian Insolvency Reform is a unique forum for policy dialogue among peers from governments and the private sector and the promulgation of international standards in the area of insolvency.

The goal of the Corporate Affairs Division is to improve the efficiency and flexibility of the policy framework for corporations. This goal translates into a tall policy agenda. We are putting the maximum of effort to meet the challenge, notwithstanding our limited resources. But we will not be successful unless we can count on all of you, policy makers, government officials, private sector leaders, practitioners and academic experts. With your energetic presence, participation and support our ambitious objectives can indeed be achieved.



Our Team

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as well as a mechanism for allocating economic resources to their best use. The OECD outreach programme includes a significant dialogue activity on the reform of insolvency systems in Asia, in co-



Accounting and Audit Reform

By John R. Rieger

A sound and credible accounting and audit profession that is independent is paramount to good corporate governance. Without a system in place that provides fair and reliable financial and non-financial information to the public, financial markets could never exist. It is only through a strong and independent (independent from government and business) accounting and audit regime that is based on international standards could such a system function.

OECD is working therefore in the development of the accounting profession in transition countries that is independent from business and from government. OECD is encouraging and supporting the use of international financial reporting standards as promulgated by the IASB¹. All of the transition countries are competing for external investors and if those countries wish to have access to these external investors and the international capital markets, they need to be willing to communicate financial and non-financial information using an internationally recognised financial reporting language. In addition, professional conduct by accountants and auditors need to be exercised (ethics) based on international norms that is why the IFAC² international code of ethics is also supported by OECD.

The Corporate Affairs division is involved in the development of the accounting and audit profession. Two regional initiatives supported by OECD and USAID include IRFAA³ and SEEPAD⁴.

¹ IASB – International Accounting Standards Board

² IFAC – International Federation of Accountants

³ IRFAA - International Regional Federation of Accountants and Auditors

⁴ SEEPAD - South Eastern European Partnership for Accountancy Development

The first regional accounting and regional project is IRFAA. It was established in June 1999 with the support of OECD and USAID. The Secretariat is located in Kyiv, Ukraine and currently maintains a full-time executive and office staff. Offices are located in the same building as the Ukrainian Accounting Association and occupancy costs are currently shared with the Ukraine Accounting Association. IRFAA currently has five standing committees on Accounting Standards, Auditing Standards, Legal Reform, Membership and Ethics, Professional Education and Certification.

To further economic reform and corporate governance in transition countries, Corporate Affairs is involved in the development of the accounting and audit profession.

The overall goal of IRFAA is to improve financial disclosure, to improve accounting and audit practices in the Eurasian region, support corporate governance, and to improve transparency and accountability. The constituting document mandates that IASB is to be supported and that IFAC policies are to be followed.

Member Country associations include: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Russian Federation (5 associations), Ukraine, and Uzbekistan.

Regional policy statements were drafted and adopted in Moscow in October 2001. Once these policy statements are adopted, committees will begin working on the development of implementation programmes, guidelines, and finally monitoring procedures for policy compliance. Due to the challenging nature of transition countries, the implementation programmes are key to effective policy introduction and compliance within the region.

For anyone with an interest in additional information on IRFAA, specific member country



association information, or who would just like to follow their progress, they have a web site that is in both Russian and in English at www.IRFAA-eurasia.org for up to date information.

The second accounting and audit project that OECD is currently involved with is SEEPAD. Established in December 1999 as a joint programme between OECD/USAID, SEEPAD was established as a regional accountancy reform initiative consisting of the principle accounting and auditing associations in South Eastern Europe.

The objectives of SEEPAD are to:

1. Create sound corporate governance, financial disclosure and accountancy regimes;
2. Develop and strengthen the accounting and audit profession in SEE through sustainable self-regulatory associations;
3. Lower trade and investment barriers by harmonising accounting and audit practices in the region;
4. Integrate the accounting and auditing professional associations of South Eastern

Europe into the EU and the international community through organisations such as FEE⁵.

Member associations at this time include: Albania, Bosnia and Herzegovina (Federation of Bosnia and Herzegovina, Republic of Srpska), Bulgaria, Croatia, Kosovo, Macedonia, Moldova, Montenegro, Romania and Yugoslavia.

SEEPAD is also listed as one of the Regional Flagship initiatives, as part of the South Eastern European Stability Pact. SEEPAD is just one of several activities that OECD is involved in within the region with the goal of providing regional stability.

OECD policy for Accounting and Audit support is based on the view that effective transparency and disclosure is contingent on having the proper systems in place for fair, timely, and accurate financial information. Differing accounting and auditing standards in different countries are a barrier to the free flow of capital, trade, and investment. For this reason, we support the IASB and their work and encourage countries to adopt the standards as promulgated by the IASB as a common accounting language.

⁵ FEE – European Federation of Accountants

News Flash

- The Website for SEEPAD has been launched. Please see www.seepad.org
- IRFAA has received “Acknowledged Status” with IFAC as the Eurasia Regional Federation



Corporate Governance in Transition Economies : The South East European Roundtable

By Mathilde Mesnard

Why corporate governance is important in transition economies

Corporate governance has emerged as a fundamental issue in transition economies. After a few years of transition in Eastern Europe, it rapidly appeared that the combined liberalisation and privatisation programmes were not sufficient to create the right incentives and trigger a real restructuring of enterprises. Privatisation programmes in most transition countries have resulted in problematic ownership and control structures. Moreover, all these countries lack the institutional and legal framework necessary to build up the necessary mechanisms in order to ensure control over the management and protect minority investors from abuses by majority shareholders. Thus, in the second half of the 1990's, the control issue came to the forefront of transition debates.

Good corporate governance is crucial to the three stages of the investment process: mobilisation, allocation and monitoring of capital; each stage being at the very core of the transition process.

1. As for the mobilisation aspect, transition economies obviously need a substantial amount of financial investment in order to restructure their industries as well as re-build infrastructures destroyed by years of war for some countries in South East Europe.
2. Secondly, with regards to capital allocation, the objective of transition is to go from an administrative allocation process towards an allocation driven by market mechanisms.
3. Finally, the reorganisation of control structures within former socialist enterprises is at stake. With the general disorganisation engendered by the systemic changes in the first year of transition, the issue of monitoring managers became even more important with the overall redistribution of assets and the resulting general upsurge of rent-seeking behaviours, in addition to the rise in corruption.

Consequently, effective ways of monitoring managers and protecting minority investors are crucial for transition economies. At risk are three essential objectives of the reforms:

- 1. the establishment of genuine private corporations;**
- 2. the effective industrial restructuring and;**
- 3. the ability to attract investment.**

These elements will in turn determine the very outcome of the transition, allowing or impeding restructuring, reconstruction and eventually growth.

The South East European Corporate Governance Roundtable

After the successful launch of Roundtables in Eurasia and Russia, the Corporate Affairs division in co-operation with the World Bank has established the South East European Roundtable.

The SEE Corporate Governance Roundtable aims at:

1. improving the understanding of current corporate governance practices in the SEE region;
2. monitoring and evaluating corporate governance developments in the region;
3. informing the international community of progressive national and regional reform initiatives;
4. facilitating full access to the ongoing international dialogue on corporate governance for key players in the corporate governance field from respective countries;
5. provide a forum for discussing the main issues in the area of corporate governance and international expertise on these issues.

Where are we now? What are the next steps?

The First South East Europe Corporate Governance Roundtable took place on 20-21 September 2001 in Bucharest. It was co-hosted by the Bucharest Stock Exchange and the Romanian National Securities Commission. The meeting focused on the shareholders rights and equitable treatment, the first two chapters of the OECD Principles of Corporate Governance. The Roundtable brought together about 110 public and private sector experts, from SEE and OECD countries and also International Organisations. Documentation from the SEE Roundtable, including the agenda, presentations, and background papers, can be found on the OECD website at www.oecd.org/daf/corporate-affairs.

Discussions amongst the first Roundtable

participants revealed a broad consensus on the following points:

1. SEE countries have a common background and experience the same difficulties in corporate governance;
2. all SEE countries suffer from weak enforcement;
3. improving corporate governance practices will help to develop regional equity markets.

The next Roundtable on Corporate Governance in South East Europe will take place on 30-31 of May in the OECD Istanbul Centre for Private Sector Development. It will focus on the fourth chapter of the OECD principles; transparency and disclosure. The third meeting will take place around December 2002 and focus on board practice and stakeholders' rights. The White Paper will be drafted progressively and discussed in respective roundtables and it should be adopted at the last Roundtable.

Forthcoming Corporate Affairs Meetings

January 2002		
Date	Event	Location
24-25	Consultative Meeting on the White Paper on Corporate Governance of Russia	Moscow
February 2002		
Date	Event	Location
21-22	Working Group on Privatisation and Governance of State Owned Assets	Paris
March 2002		
Date	Event	Location
26	Presentation of the Russian White Paper on Corporate Governance	Moscow
April 2002		
Date	Event	Location
8-10	3rd meeting of the Latin American Corporate Governance Roundtable "Board of Directors and Transparency and Disclosure"	Mexico City
17-18	3rd meeting of the Eurasian Corporate Governance Roundtable "Shareholder Rights, Equitable Treatment and the Role of the State"	Kyiv



Our Selection

Corporate Affairs Publications

1. **New ! Behind the Corporate Veil: Using Corporate Entities for Illicit Purposes**
2. **Corporate Governance in Asia: A Comparative Perspective**
3. **Insolvency Systems in Asia: An Efficiency Perspective**

available in paperback and PDF E-Book from the On-line Bookshop www.oecd.org/bookshop

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