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DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
CORPORATE GOVERNANCE COMMITTEE

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Cancels & replaces the same document of 22 June 2010

Draft Programme of Work and Budget 2011-2012

20-21 April 2010
OECD Conference Centre
2, rue André-Pascal, 75016 Paris

The draft Programme is put to the Committee and Working Party for approval by written procedure.

The complete version is available in pdf format only.

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ACTION REQUIRED

1. To support the preparation of the OECD's 2011-2012 Programme of Work and Budget (PWB), all OECD Committees are being asked to indicate their priorities and the directions for their future work programmes. Taking into account the policy environment and discussions in the Corporate Governance Committee, this document proposes a set of outputs and priorities for the Committee's consideration. The Committee's subsidiary body, the Working Party on State Ownership and Privatisation Practices~~Group on Privatisation and Corporate Governance of State-Owned Assets~~, will discuss its priorities on 22 April. Therefore the specifics of the Working Party~~Group~~'s work programme should be considered preliminary in nature.

2. ***The Committee is invited to:***

1. *Endorse the direction of the draft Programme of Work of the Committee, including preliminary indications of outputs produced by its subsidiary body, the Working Party on State Ownership and Privatisation Practices~~Group on Privatisation and Corporate Governance of State-Owned Assets~~.*

2. *Indicate priorities among the different outputs identified in the draft Programme of Work taking into account the need for relevance, visibility and potential impact. (Table 1 provides a proposed indication of priorities based on allocation of staff resources).*

3. *Identify any additional outputs that are not presented in this draft Programme of Work, but which Delegates consider should be added, or outputs that should be dropped to free resources for higher priorities.*

4. *Assess resource needs in light of the proposed outputs and make proposals to meet resource requirements and shortfalls.*

3. The draft work programme will be adjusted in light of comments from the Committee. In accordance with the OECD's budget procedures, it will be taken into account when the Secretary-General develops his proposal for consideration by the Budget Committee. In the fall 2010, the Committee will also receive a "roadmap" for implementation of the 2011-2012 PWB, which provides an opportunity to provide detailed guidance in terms of the content and sequencing of the agreed work.

1. THE POLICY ENVIRONMENT

4. The policy environment for the period 2011-2012 is likely to be strongly influenced by the aftermath of the financial crisis with policy makers being sensitive to any sign of corporate governance weaknesses. Implementation of internationally agreed or accepted standards will remain on the policy agenda. As a consequence, the high level policy debate over the relative role of regulation and market incentives including codes as a method for changing corporate behavior is likely to continue. The Committee is well positioned to make a global contribution to this policy debate. The completion of the three studies on *Corporate Governance and the Financial Crisis* has laid the groundwork for a greater focus on implementation issues in the evolving corporate governance landscape. Moreover, the initiation of thematic peer reviews in 2010 will provide the Committee with an important framework for cooperation and debate with both member and non-member countries.

5. There is a growing perception that for a number of key issues of concern to policy makers, important insights can be gained by examining linkages across policy domains. Thus the OECD has recognised the importance of cross-cutting analysis of policy areas such as Innovation and Growth, and is focusing more on what is termed horizontal work covering the interaction between policy domains. There is a growing recognition that in a number of policy areas, corporate governance practices might also have important consequences. This is so in the area of tax, where tax minimization is thought to involve certain corporate governance arrangements. With respect to competition policy and corporate governance, the relationship has only been explored in a very restrictive framework, but the major question is whether they are complementary in promoting growth, a concern that is likely to dominate the post-crisis world.

6. At the international level, the G20 and the FSB have already changed the framework in which the Committee operates and it is expected that their processes will continue to be fine-tuned over the period. The G20 has increased the number of non-member jurisdictions with whom the Committee must interact. The current list should be taken as a minimum one since the architecture is likely to prove flexible with other countries pushing for admission to the G20. Relationships take time to build and it is fortunate that with China, Indonesia, Brazil and India the Committee's outreach activities have already been underway for some ten years. Consequently, it is important for the Committee to have an appropriate global relations policy and activities. The G20 process has also introduced a new dimension to the international policy framework. Codes, agreements and understandings are all very well but the new environment will be one requiring checks to see if standards are actually being implemented. Of immediate relevance for the Committee is the provision in FSB membership for all members to implement international financial standards, and in particular the commitment by FSB members to implement the 12 Key Standards and Codes, one of which is the Principles. There is also a commitment to undertake periodic peer reviews. The focus of the FSB during the period will likely shift from the most pressing issues such as implementation of prudential standards discussed in 2010 towards its broader mandate including implementation of these 12 key standards. The Committee should be prepared to assume its responsibilities as a standard-setter during the biennium.

7. The rise of emerging economies such as Brazil, China, India and Russia where state-owned enterprises often serve as important economic players will be associated with shifts and blending in terms of corporate governance cultures, investor attitudes and business traditions. This has in some cases already given rise to heated public debates and controversy. It is now important to step up efforts to forge global consensus about good ownership and governance practices. The Committee and its Working Party~~Group~~ are well placed to undertake this task.

8. Many state-owned enterprises are also listed companies, which serves to raise their profile in the world economy and to raise specific policy issues. Gazprom is today one of the world's largest listed companies, and some 70 percent of the companies listed on the Shanghai Stock Exchange (one of the 10 largest stock exchanges in the world) have significant state ownership. As the OECD moves toward deepening enhanced engagement with a view towards possible membership for these and other major emerging economies in the coming biennium, it is essential for policy-makers in OECD Member countries to understand and monitor the political and economic implications of government ownership in companies that are active in competitive markets.

9. Developments have also underscored the case for reforming the state-owned sector. State-owned enterprises represent substantial assets in terms of investments that need to be managed in the most efficient way possible. State-owned enterprises are often active in vital sectors, such as utilities, transportation and energy on which the private sector and general public depend. The competitiveness of private enterprises and the welfare of the general public depend on the quality and reliability of their services. Many member and non-member countries have a long experience with reform of the state-owned sector, including privatisation, and the Working Party~~Group~~ is well placed to continue to play a prominent role in informing and supporting reform.

2. MAIN FEATURES OF THE 2011-2012 WORK PROGRAMME

10. The OECD has a unique role as an international standard setter on corporate governance that is now embedded in its new mandate (DAF/CA/CG(2010)6). The *OECD Principles of Corporate Governance* is recognised globally, along with the related *Assessment Methodology* and *Guidelines on Corporate Governance of State-Owned Enterprises*. The global financial crisis has further focused the spotlight on the importance of corporate governance standards and their effective implementation. The current challenge is to support the application of these instruments in a dynamic governance policy debate. Against this background, the work programme rests upon the overarching objectives as set out in its new Mandate and a relevant strategy for 2011-2012 should contain the following elements:

- **Providing a platform for peer review and exchange of experiences**

  In 2010, a first round of corporate governance peer reviews will be launched. In late 2010, the Committee will review experiences and refine the process, with the view to establishing a solid platform for peer reviews in 2011. In addition, there is likely to be an accession review in 2011 and during the biennium, follow-up reviews at some stage of progress for accession countries. The Committee has expressed an ambition that the peer review process should be open to all G20 countries as equal partners. It should also be aligned with the overall G20/FSB objectives for peer reviews against key FSB standards.

- **Ensuring global ownership of the OECD Principles**

  In order to ensure that OECD remains a truly global reference, key non-member countries (including all G20 countries) should be given the opportunity to participate in a future review of the OECD Principles as equal partners. This will be a key exercise, the basis for which would be established during the 2011-2012 biennium. The review of the Principles should make use of OECD's Regional Corporate Governance Roundtables to establish an inclusive global forum for the task.

- **Applying a horizontal perspective**

  The quality of corporate governance impacts a number of policy areas. As a consequence, there is a very high demand for cross-cutting work. In response, the Corporate Governance Committee has already launched preparatory work on the links between corporate governance and both tax and competition policy. This could be extended in the period 2011-2012. The Corporate Governance Committee will also need to play an important role during the forthcoming revision of the *Guidelines for Multinational Enterprises*, where important experiences from both state-owned enterprises and the private sector will be essential. The Committee will also need to take a more prominent role in the corporate responsibility debate.

- **Strengthening ties with enhanced engagement countries and advancing our position in international organisations**

  All enhanced engagement countries consider better corporate governance essential to develop their capital markets and have expressed strong interest in closer co-operation with OECD. A corporate governance review of China was discussed in early 2010. Intensive work both Indonesia and India could commence in the biennium. Similar work with South Africa and

Brazil is expected to commence on a full scale during the first part of 2011-2012. Over the next 3 years, additional efforts should also be made to ensure OECD's position and influence in key international bodies, such as the World Bank, FSB, the Basel Committee and IOSCO which are dealing with specific aspects of corporate governance. The Committee should also raise its profile in regional organisations, including APEC, where their Ministers have committed to a programme that will support implementation of the OECD Principles.

- **Effective communications to improve policy impact and to raise awareness**

  Effective communication of the Committee's work is essential to ensure its visibility and impact. Therefore, time and resources for communications will be built into the planning for all of the elements discussed above that will also need to engage member countries and the OECD. Communication of results will take the form not only of publications and reports made available through the OECD Web site to ensure their availability to a wider audience, but also will include more proactive efforts to make use of e-mail, leveraging of partners' networks and use of newer Web-based technologies to provide enhanced opportunities for interaction and dialogue.

3. DRAFT PROGRAMME OF WORK 2011-2012

11. The work of OECD bodies is defined in terms of Final Outputs and Intermediate Outputs. This proposal contains three Final Outputs, each with a varying number of Intermediate Outputs. Table 1 sets out the resources requested and the voluntary contributions that would be sought in relation to each of these outputs.

Final Output 1: Four Peer Reviews and Two Analytical Reports to ~~Financial Crisis Follow-up:~~ Enhance~~ing the Relevance and~~ Implementation of the OECD Principles

Intermediate Output 1.1: Four Peer Review~~ Report~~s on Current Issues

12. The Committee decided at its meeting in November 2009 to launch thematic peer reviews of member and non-member countries with a first review in April 2010. Judging by the policy environment, there should continue to be an important demand for such reviews. For the new biennium, the Committee could consider four thematic review sessions a year covering at least two topics and a total of around 6-8 countries at each meeting. This will be adjusted during 2010 in the light of accumulating experience. This plan would require a significant increase in the resources allocated to the Committee from 2010. The proposal in Table 1 foresees an internal transfer of permanent resources from some non-member work where other sources of finance might be available.

13. Being thematic and forward looking, it is foreseen that the intermediate output may preserve the excellent experience of the Steering Group with “fast track” thematic reports. This objective could be achieved in two ways. First, it is expected that the choice of peer review themes would reflect current policy priorities and interests (for instance, board diversity might be of interest for some). Second, after a number of countries have been reviewed for a particular theme, a study could be prepared drawing together the experiences in different countries and developing a sense of what appears to be good practice in implementing the Principles.

14. Non-member countries, and especially enhanced engagement countries, could participate with member countries in the peer reviews, a practice that started already in 2010. In addition, as noted under intermediate output 2.2, it is expected that enhanced engagement countries could build on the experience of China with self-assessments that would be discussed at both the Regional Roundtables as well as at the Committee in a peer review format. Dialogue with these countries would be financed in part by voluntary contributions associated with the Regional Roundtables.

15. Intermediate output 3.3 proposes possible peer reviews of SOE governance that would be a complementary output.

Intermediate Output 1.2: Report on Modalities and Options to Revise~~ing~~ the Principles~~: Preliminary steps~~

16. The Principles were last revised in 2003-2004 through an intensive consultative process. While the Committee’s work programme is currently focused on effective implementation, at some stage preparations will need to be put underway for a review. It is envisaged that 2011 would be the appropriate time to establish the legal modalities. This is important since the G20 countries that are not members of the OECD have made it clear that they wish to be recognised with full rights when standards recognised by the FSB are reviewed or created. Once legal modalities are agreed, there could be a discussion about likely revisions in order to determine whether there is a possible consensus. The process of a formal review is time consuming and resource intensive. In 2003-2004 it required about one year of an A4 and a B3 that

was especially funded by the Central Priorities Fund. In the coming biennium only a low resource allocation is foreseen due to the priority to ensuring implementation of the current Principles through peer reviews, unless additional voluntary contributions or other funding sources can be identified to accelerate the process in 2012. Otherwise, a formal review could therefore be foreseen in 2013 with a wide range of stakeholder consultations.

Intermediate Output 1.3: Corporate Governance and Horizontal Issues: Two Analytical Reports

17. Some of the most important policy work of the OECD has concerned issues involving different policy domains and Committees, termed Horizontal projects. Recent examples include Going for Growth, Green Growth and the Innovation Strategy. They are often financed by Central Priority Funds. Such projects are also often the product of individual committees identifying policy links with another committee that they would like to explore and organise on a bilateral basis. In such cases they are usually but not always funded from the resources of each committee (see Table 1). The advantage for the Committee is that it can raise significantly the impact of corporate governance work. Six possible areas (and committees) stand out as likely partners for the Committee involving horizontal work: tax, competition, the review of the OECD MNE Guidelines, regulatory impact analysis, innovation and financial markets.

18. With respect to ***tax policy*** (Committee on Fiscal Affairs), the immediate priority will be to understand the position of the tax authorities and their concerns that corporate governance arrangements should also deal with minimising aggressive tax planning. This would help lay the ground for a review of the Principles since there will be demands from the tax community for more explicit consideration. Beyond that the Committee might also like to investigate in more detail the consequences of tax policy for corporate governance arrangements. These include the tax treatment of debt and the role of tax in remuneration arrangements and in the development of company groups.

19. With respect to ***competition policy (***Competition Committee), a start has already been made by both the Committee and the Working Party~~Group~~. The Committee helped organise a seminar with the Competition Committee covering company groups, governance and competition, and the Working Party~~Group~~ has worked with them on the competitive neutrality of SOEs. More generally, the academic position up until now has been that the greater the level of competition in a market the less the need for good corporate governance, since rents would be competed away. Regulated industries would therefore be one sector where good corporate governance would have high returns. This line of reasoning is not convincing and very restrictive, so that in horizontal work the Committee would need to establish a more profound framework of analysis. This could involve, for example, seeing corporate governance as an intermediating variable between competition and resource allocation, and by extension, growth.

20. The review of the OECD ***MNE Guidelines*** (Investment Committee) might commence in 2010 and if so, there could be a need in 2011 to make submissions to the review group. Comments might be restricted at first to chapter III covering disclosure but might extend to more general issues of corporate governance. Looking ahead through the biennium there is a need to open the possibility for a closer review by the Committee of evolving ideas of ***corporate responsibility*** and how these are linked with corporate governance. The Principles already include a chapter on stakeholder relations and the board chapter also views the board as performing an intermediating role between competing constituencies. Such issues have been evolving in some jurisdictions with revised company law and developing jurisprudence. Such work could also be handled in a peer review context.

21. The Committee has expressed a wish in the past to continue work on ***regulatory impact analysis***. In the coming biennium such work could be undertaken in conjunction with the Regulatory Reform

Committee which is keen to follow how regulatory impact analysis is undertaken in each policy area (see the Committee's chapter in *OECD Reviews of Regulatory Reform: Regulatory Impact Analysis*).

22. The ***Innovation*** Strategy (Directorate for Science, Technology and Industry) has been a major project of the OECD but the Committee has not been involved up till now. In moving to a second stage to be financed by Central Priority Funds, the Innovation Strategy work will focus on intellectual assets and value creation, something that the Committee has looked at previously and which was rated highly (see *Intellectual Assets and Value Creation: Implications for Corporate Reporting*). If funding is available, the Committee could consider returning to the theme As advocated by the conclusions of the previous work, a private sector organisation was created with OECD assistance (World Intellectual Capital Initiative) that is developing a system of sector specific Key Performance Indicators. Any potential work for the Committee would take this as a starting point and focus on policy issues mainly dealing with narrative reporting and the issue of analyst coverage.

23. There is already a close connection of the Committee's work with ***financial markets***. The Committee has prepared and considered a report about the role of stock exchanges in promoting and monitoring good corporate governance standards, both in OECD countries and in major emerging markets (DAF/CA/CG(2008)9/FINAL). However financial markets and associated regulation continue to evolve with potentially important impacts on corporate governance. Topics that are already covered in the Principles such as equal voting rights for foreign and domestic investors, the equitable treatment of shareholders (short and long term), and the integrity of the voting system could be handled at least initially in a peer review format. Cooperation with IOSCO might also be important. An issue that comes up often in emerging financial markets concerns the use corporate governance indices and gap analysis indicators to promote good corporate governance. The Committee has been opposed to aggregate national indicators in the past but these indicators are different. A more detailed evaluation of what is being used and to what effect might now be useful and undertaken in conjunction with the Economics Department and its Working Party 1 in the context of their work on financial markets and growth.

Intermediate Output 1.4: ~~The impact of i~~Insolvency ~~arrangements on~~and corporate governance practices: One Report, One Task Force meeting and Two Regional Meetings

24. The OECD through its longstanding support of the Forum on Asian Insolvency Reform (FAIR) and more recently as one of the co-sponsoring organisations of the Forum on Insolvency Reform for the Middle East and North Africa (FIRM), has a reputation as a significant force in support of effective insolvency frameworks. Such work has never been part of the core OECD-funded budget, and with voluntary funding for this work diminishing recently it is not certain whether the OECD can maintain the necessary capacity to play an effective role in the international policy dialogue and the corporate governance aspects.

25. There is a close relationship between insolvency rights and corporate governance as reflected in the OECD Principles section IV.F. Other links include:

- Overlap/cross over between when a business is operating under ordinary conditions and when it is insolvent—known as the "twilight zone";
- The same or similar drivers of underlying policy issues in both governance and insolvency (for example, agency, short-term versus long-term considerations, monitoring costs); and
- The complementary nature of the insolvency and corporate governance frameworks – to engender confidence and encourage investment there needs to be effective governance and insolvency systems.

26. At its meeting in November 2009 there was a proposal to form a subgroup of the Committee to study the issues. It was also noted that OECD country expertise on insolvency is not always based in the same institutions as those of the Corporate Governance Committee delegates, meaning that for OECD members to contribute credibly to this debate, there may be a need to create a more specialized sub-group, backed by voluntary funding, to bring together both streams of expertise to effectively address the links between corporate governance and insolvency issues.

27. An OECD insolvency "task force" could be composed of a mixed group of OECD country policy-maker/regulators, also involving some key emerging economies from Asia and MENA, and experts from investor/creditor/judicial/insolvency practitioner backgrounds. The task force outputs could be:

- To discuss and agree on key policy issues on insolvency that the OECD should work to advance in the wake of the financial crisis, with a focus on the impact of arrangements for dealing with insolvency on corporate governance;
- A report to the Committee highlighting and advocating actions on these issues, with particular attention to links with the Principles of Corporate Governance and OECD's financial crisis response, which could be discussed by the Task Force and then the Committee.
- Support advancement on these issues through the FAIR and the FIRM, and through co-operation with other international organizations and networks such as the World Bank, UNCITRAL, the International Association of Insolvency Regulators (IAIR), APEC and INSOL International.

28. The proposed output could only proceed if voluntary contributions are available and the output would be supported by several jurisdictions.

Final Output 2: Corporate Governance Challenges in Emerging Markets: Four to Six Good Practice Reports and Recommendations ~~-~~and Two Enhanced Engagement Reviews ~~countries: Reports and Recommendations~~[1].

29. The Regional Roundtables have played a key role in ensuring the global reach of the Principles, raising awareness in general and in promoting policy responses. They have also been a major point of contact and cooperation with the Enhanced Engagement countries. The Roundtables have evolved in response to changing priorities in each region and this is leading them to emphasise implementation barriers and enforcement. Their work and the interests of the Committee are thus converging. This was illustrated by the recent work of the Asian Roundtable concerning the control of abusive related party transactions that was of great interest to a number of member countries. Moving forward, it will be important to build on past successes and to deepen the ongoing dialogue between OECD countries and major emerging markets, which can support capital markets that are built on high corporate governance standards.

[1] Non-member economies: Information about potential non-member participation in Committee activities where they are involved in accordance with Council-recognised procedures during 2011 and 2012 will be provided to the Committee in the course of the preparation of the PWB. During the course of the biennium, information about non-member participation that has not been provided prior to the start of the biennium will be made available in good time to Members, so that Committee members may have the opportunity to comment if they wish.

Intermediate Output 2.1: Four-Six Regional Corporate Governance Roundtable Good~~Best~~ Practice Reports and Recommendations for Emerging Economie~~Markets~~s

30. In 2011 the **Asian Roundtable on Corporate Governance** will continue working on updating its 2003 White Paper so that recommendations fully take account of more recent developments. It is planned that the revised White Paper will be endorsed in May 2011 following which a Working Group will be established to focus on in-depth work dealing with one or two of the new priority issues identified through the White Paper review. This will be organised as informal peer-reviews and discussed at the annual meeting of the Roundtable. There also has been interest in engaging more with the private sector, with a potential for establishing an Asian Companies Circle.

31. Important regional groups, notably APEC and the Asian Development Bank, have asked to partner with the OECD in their corporate governance agendas. Such partnerships would help to increase OECD impact in enhanced engagement countries and reinforce co-operation with priority countries in Southeast Asia.

32. **The Latin American Roundtable on Corporate Governance and its Companies Circle** will continue to reinforce the implementation of good practices related to, for example, boards and the conduct of annual general meetings. While this public-private sector collaboration will continue to be an important strength of the Roundtable, the role of policy and regulatory oversight will be a rising priority during the coming biennium. The Roundtable will enhance co-operation with IOSCO's Latin American regional grouping, COSRA – the Council of Securities Regulators of the Americas – in the establishment of a task force to strengthen enforcement of corporate governance-related requirements, to be launched in 2010 and continuing in 2011-2012 to address important issues such as protection of minority shareholder rights through better enforcement against abusive related party transactions, insider trading and other issues of concern identified by the Roundtable.

33. **The MENA Working Group on Corporate Governance,** formally part of the MENA-OECD Investment Programme, has considerably raised its profile in the region during this biennium. Subject to availability of voluntary contributions, the MENA Working Group will continue promoting improvements in corporate governance of regional banks through assistance with the implementation of recommendations of a Policy Brief finalised in 2009, and in state owned enterprises through the work of the Task Force on State-Owned Enterprises. A regional insolvency forum, based on the model of FAIR, was launched in 2009 in cooperation with the World Bank, INSOL International and the Hawkamah Institute of Corporate Governance and has established an ambitious agenda (details under intermediate output 1.4). There is also a policy appetite to begin addressing new issues related to curbing abusive related party transactions, the role of stock exchanges in corporate governance and corporate governance of family enterprises.

34. While the three regions cited above have been identified as highest priority for continued OECD support and likely use of voluntary contributions to supplement OECD funding, it should not preclude possible additional work in other regions such as Eurasia, Southeast Europe or Africa, in the event of growing demand and donor interest for OECD support in such regions. If there is support for such work, it would be brought back to the Committee for further consideration and adjustment in the work programme and budget if appropriate.

Intermediate Output 2.2: Two Enhanced Engagement ~~Country~~ Reviews and Peer Dialogue (Brazil, China, India, Indonesia, and South Africa)

35. An important objective of the OECD is to place the relationship with Enhanced Engagement countries on a higher qualitative level (DAF/CA/CG(2010)7). An important way of doing this is in the first instance via the Regional Roundtables, and then to link the work to the Committee. Such cooperation is

often politically sensitive and must be developed carefully, requiring time to build the confidence of country authorities in participating in the Committee. However, over the past ten years the OECD has already developed close contacts with Brazil, China, India, and Indonesia through the Regional Roundtables, and South Africa has expressed an interest in closely co-operating with the OECD in various forms.

36. Looking ahead to 2011-12, it will be important to make use of observership invitations to all Enhanced Engagement countries to further develop their understanding of how they can benefit from OECD policy expertise and guidance, and how OECD too can benefit from their experience of these issues. This will help to ensure their participation in, and input to, the core corporate governance initiatives of the OECD as described in other parts of this work programme. In addition, the Committee can build upon the experience of China's corporate governance self-evaluation and peer dialogue with the Committee, and Brazil's participation in the first Committee thematic peer review, to deepen co-operation with these countries, and to extend such co-operation to India, Indonesia and South Africa in 2011-2012, subject to the availability of sufficient supplementary resources.

37. The Chinese example in 2010 of a comprehensive self-assessment against the OECD Methodology need not represent the only way forward with other countries. India and Indonesia have both had extensive comprehensive domestic and World Bank ROSC reviews so that the focus would be on areas of major policy concern. For example, in India the accountability of controlling owners remains a challenge and investors remain sceptical of financial statements. In Indonesia, despite advances in its new company and securities laws, it is still facing several challenges in its efforts to improve corporate governance, notably in enhancing the capacity of its regulators and improving the protection of shareholders' rights and board responsibilities in practice. These issues could be the subject of focused reviews that would be discussed both in the Asian Roundtable and by the Committee.

38. In addition to the strengthened participation of enhanced engagement countries in core OECD work and country-focused policy dialogue and peer review, these countries should continue to play a strong leadership role in OECD regional work. In 2010, this has been evident in Brazil's proposal to host a first meeting of the Latin American network on corporate governance of SOEs and the annual meetings of the Latin American Roundtable on Corporate Governance and Companies Circle. China will host the Asia Roundtable in 2010, India is hosting the 2010 meeting of the Forum on Asian Insolvency Reform and South Africa was the inaugural host country for the Southern Africa SOE network. As regional leaders, the OECD should continue to work closely with them and other key jurisdictions in defining policy priorities to be addressed in regional meetings.

Final Output 3: Corporate Governance of State-Owned Assets and Privatisation Practices: Four-Five Reports and ~~r~~Recommendations

Intermediate Output 3.1: One Report on ~~T~~the ~~s~~State in the ~~m~~Market-Place

39. The Working Party~~Group~~'s recent project on the evolving role of SOEs in the world economy has highlighted a need to analyse and debate the broader issue of governments' direct influence on the corporate and competitive landscape. This includes, in addition to the ownership policies, objectives and occasional direct interventions in SOEs, governments' options for using alternative regulatory and financial mechanisms to a similar effect. Two or three thematic reports analysing these issues could be developed as horizontal undertakings involving other OECD Committees, including those involved in areas such as competition, international investment, financial markets and public governance. Toward the end of the process a synthesis report would be developed.

40. The Working Party~~Group~~'s efforts to document and quantify the importance and sectoral distribution of SOE activities could be carried forward as part of this project. This would involve horizontal activities with the Working Party on National Accounts Statistics. It would also involve a continued, close co-operation with the Enhanced Engagement and other non-OECD countries to ensure an adequate coverage of the statistical document.

Intermediate Output 3.2: Assisting SOE governance reform: Three-Four Reports – Global and Regional Networks (Asia, Latin America, MENA, Africa)

41. State ownership often represents substantial values in terms of assets and investments. It is an immediate interest to make sure that these resources are used and allocated in the most efficient way, in order to enhance the functioning of individual SOEs and to maximise their contribution to the entire economy. To support reform initiatives in both OECD and non-OECD countries, it is suggested that a systematic inventory of experiences with reforming the state-owned sector is compiled in a best practices report. This work would be carried out in close coordination with the non-member activities foreseen in Final Output 2 and involve the direct participation of the Enhanced Engagement countries. Co-operation with non-OECD countries on a bilateral basis could be envisaged. Several countries have at various points expressed an interest in OECD reviewing the governance of their SOE sectors, which has in the past sometimes been turned down on grounds of resource availability.

42. An area of SOE governance reform that has attracted particular interest in OECD and non-OECD countries relates to the boards of directors. Well-functioning boards are the public's best guarantee that SOEs carry out their assignments in a transparent and accountable manner, without undue political interference. A Best Practice document could be developed, providing guidance on board nomination, training, functioning and evaluation. The document would be developed as a joint effort, drawing on the experiences of Working Party~~Group~~ delegates, Enhanced Engagement countries and other participants in the Global and Regional Networks.

Intermediate Output 3.3: Two Thematic Peer ~~r~~Reviews of SOE ~~g~~Governance

43. Following the establishment of a peer review mechanism for the Corporate Governance Committee to undertake regular reviews of corporate governance topics based on the Principles, the Working Party~~Group~~ could decide to establish a similar mechanism. Each meeting could include one session discussing topical SOE governance issues in 4-6 countries. Each such discussion would be informed by a fast-track analytical report by the Secretariat based on questionnaire responses and field visits to the countries subject to review. The Enhanced Engagement countries and other observers to the Working Party~~Group~~ would be encouraged to participate in the peer reviews.

Intermediate Output 3.4: Balancing the C~~c~~ommercial and ~~n~~Non-~~c~~Commercial ~~i~~Interests of SOEs: One Good Practices Report

44. An important horizontal undertaking by OECD in the next two years is likely to be "green growth" (i.e. environmentally and socially sustainable economic progress). The Working Party~~Group~~ is well placed to contribute. A prospective undertaking might centre on the role in public policy of the large number of SOEs in high-environmental impact sectors such as energy and extractive industries. The Working Party~~Group~~ could develop two analytical reports. The first would take stock of current national approaches in this respect. The second would highlight the challenges arising for government ownership agencies from reconciling commercial and a mounting number of "green" objectives on state-owned enterprises.

4. RESOURCES

45. For the PWB 2009-2010, the OECD Part 1 resource levels comprised funding for the Division Head, four senior A-grade staff and a B4 support staff. For the 2009-10 PWB, Central Priority Funds were sought to provide continuing funding for the Working Party~~Group~~'s programme, but were not granted. In order to maintain the viability of the Working Party~~Group~~'s programme during the 2009-10 period, one of the four A-grade staff was allocated to the Working Party~~Group~~. The remainder of the work programme has been funded by voluntary contributions and to a lesser extent temporary funding sources (CPF funding of 128000 Euros for Enhanced Engagement and accession review funds), which currently support 4 additional A grade staff (economists/policy analysts) and four B grades (project assistants).

46. The 2011-2012 proposal assumes that the Committee and its Working Party~~Group~~ will maintain the same OECD Part 1 resource levels as in past years (funding for the Division Head, four senior A-grade staff and a B4 support staff), plus 100,000 Euros per year in CPF funding covering part of the costs of an A4 and part of a B3. Table 1 sets out a proposal for how core OECD funding for 2011-2012 would be allocated. The first column indicates a proposed shift of resources from Final Output 2 (Emerging markets) to the core work of the Committee, especially the peer reviews and to a lesser extent, horizontal issues and a review of the Principles. Some additional resources have also been allocated to the Working Party~~Group~~, Final Output 3. While the reallocation shifts funds away from output 2.2 on Enhanced Engagement, an appropriate balance is sought by integrating some Enhanced Engagement activity into the core Output 1 work of the Committee. It is hoped that voluntary contributions would also enable the OECD to respond to growing demand for country-focused Enhanced Engagement work to receive broadly the same resources as in past years.

47. ~~The right hand columns of~~ Table 1 also reports on how additional resources from potential voluntary contributions would be allocated. Some voluntary contributions are expected to be in hand by the beginning of the biennium and will be earmarked for the Asian Roundtable and enhanced engagement in the Asian area. Similarly, some voluntary contributions are expected for Latin America. Clearly, if the Committee is to maintain its overall work programme with the same level of real resources as in past years, significant additional financing will be necessary.

48. It should be noted that, as in all budget work, there may be pressure to identify budget savings in order to fund new OECD work priorities. In this context, it is important that the Committee indicate whether it agrees with the overall priorities for the Work Programme as set out in Table 1, and to consider whether any outputs should be added, dropped or cut back in order to ensure funding for highest priority projects.

49. The Committee's and the Working Party~~Group~~'s remaining work on accession (for Russia) will be funded separately.

Table 1

STRATEGIC OBJECTIVE:	**4**	**Enhance Public and Private Sector Governance**
OUTPUT GROUP:	**4.1**	**Business Climate**
OUTPUT AREA:	**4.1.3**	**Corporate Governance**

	2010	K EUR 2011	2012
Base Budget	-	907	828
% change per year	-	-	-8.7%
CPF	-	90	90
Global Relations Budget	-	537	525
% change per year	-	-	-2.3%
Global Relations CPF	-	10	10
Operating Overheads	-	-	-
% change per year	-	-	-
Total Part I Budgeted Resources	-	1 544	1 453
% change per year	-	-	-5.9%
% of total substantive Part I Output Areas			
Total Estimate of Voluntary Contributions Planned	-	2 080	2 207
Pre-Accession Budget	-	107	-

RESPONSIBLE MANAGER: Mrs. Carolyn ERVIN, Mr. Richard BOUCHER

RESPONSIBLE DIRECTOR: Mrs. Carolyn ERVIN

COMMITTEE ACCOUNTABILITY:	MANDATE or SUNSET:
Corporate Governance Committee, Chaired by Dr. Marcello Bianchi (Italy) *Observers:* Bank for International Settlements (BIS), International Monetary Fund (IMF), World Bank	31/12/2014

Policy Environment:
• In the context of ongoing financial and economic adjustments, policy makers need to be sensitive to corporate governance weaknesses in both the regulatory framework and company practices. Implementation of the OECD Principles of Corporate Governance is still lacking in key areas. Accordingly, the OECD Corporate Governance Committee has launched thematic peer reviews that emphasise implementation questions (i.e. corporate practices) in areas of key policy interest. The peer reviews will provide the Committee with a platform for policy analysis and dialogue with both Member and non-Member countries. • The Financial Stability Board (FSB) and the G20 have introduced a new dimension to the international policy framework: codes, agreements and understandings are all very useful, but the new policy environment will require a process to confirm that they are actually being applied. The issue is being addressed by the Committee through peer reviews that will also need to incorporate other non-member G20 countries. To maintain its FSB responsibilities, the Committee will also need to review the Principles and incorporate all FSB member jurisdictions in the process. • Corporate governance practices can also have important consequences in other policy areas such as competition policy, innovation and tax. In addition, issues concerning corporate responsibility are likely to remain on the policy agenda. Through its analytical work and standard setting responsibilities, the Committee will respond to these policy issues in conjunction with other Committees. • State –owned enterprises will continue to attract growing policy interest. Developments in both member and non-member countries underscore the case for reforming the corporate governance of the state-owned sector to improve efficiency and provide important services for the private sector (e.g. utilities). State-owned enterprises represent substantial national assets that need to be managed efficiently in the public interest. This will also involve maintaining a level playing field (i.e. competitive neutrality) with the private sector. The Working Party on State Ownership and Privatisation Practices is the focal point for the exchange of experience about corporate governance practices that underpin efficient and responsive state owned enterprises. • The rising importance of emerging economies such as Brazil, India, China and Russia, where state-owned enterprises are often important economic players, will be associated with shifts in the global economy in terms of corporate governance cultures, investor attitudes and business traditions that need to be better understood. The Working Party is well placed to tackle the policy issues with its Guidelines for the Corporate Governance of State Owned Enterprises and engage in policy dialogue with key non-member jurisdictions.

Expected Outcomes:
Increased awareness among policy makers and stakeholders about the character and implications of corporate governance weaknesses in the wake of the financial crisis. A better understanding by Members and non-Members, including Enhanced Engagement countries of how to improve corporate governance frameworks by implementing the OECD corporate governance instruments and reviewing their Principles.
Improvements in corporate governance policies and private and public sector practices, including the performance, transparency and accountability of state-owned commercial enterprises resulting from OECD analysis, use of OECD instruments and dialogue, including with emerging market players and other non-members.
A more open, efficient, and predictable investment climate that contributes to market confidence, investor protection and financial stability. Better transparency and a more level playing field between private sector companies and state-owned enterprises worldwide.

			2011 (K EUR)					2012 (K EUR)				
2011-12 Expected Output Results in Priority Order	**Accountable Committee/ Subsidiary Body/ Global Forum**	**Ongoing/ Time Bound (end-date)**	**Total Estimated Cost (TEC)(1)**	**Part I Budget**	**CPF(2)**	**VCs in Hand**	**New VCs**	**Total Estimated Cost (TEC)(1)**	**Part I Budget**	**CPF(2)**	**VCs in Hand**	**New VCs**
1. Four Peer Reviews and Two Analytical Reports to Enhance Implementation of the OECD Principles	CGC	Time Bound Q4 2012	1 253	635	90		528	1 279	562	90		627
1.1. Four Peer Reviews on Current Issues	CGC	Time Bound Q4 2012	576	365	68		143	528	345	65		117
1.2. Report on Modalities and Options to Revise the Principles	CGC	Time Bound Q4 2012	54	42	12			68	53	15		
1.3. Corporate Governance and Horizontal Issues: Two Analytical Reports	CGC	Time Bound Q4 2012	323	227	10		86	353	163	10		180
1.4. Insolvency and Corporate Governance Practices: One Report, One Task Force meeting and Two Regional Meetings	CGC	Time Bound Q4 2012	299				299	330				330
2. Corporate Governance Challenges in Emerging Markets: Four-Six Good Practice Reports and Recommendations and Two Enhanced Engagement Reviews	CGC	Time Bound Q4 2012	1 530	483	10	113	924	1 528	465	10		1 053
2.1. Four-Six Regional Corporate Governance Roundtable Good Practice Reports and Recommendations for Emerging Economies (Asia, Latin America and MENA)	CGC	Time Bound Q4 2012	1 090	328		101	662	1 087	312			775
2.2. Two Enhanced Engagement Reviews and Peer Dialogue (Brazil, China, India, Indonesia and South Africa)	CGC	Time Bound Q4 2012	439	155	10	12	263	441	153	10		278
3. Corporate Governance of State-Owned Assets and Privatisation Practices: Four-Five Reports and Recommendations	WPSOPP	Time Bound Q4 2012	842	327			515	853	326			527

3.1. One Report on the State in the Market Place	WPSOPP	Time Bound Q4 2012	166	146	20	183	156	27
3.2. Assisting SOE Governance Reform: Three-Four Reports -- Global and Regional Networks (Asia, Latin America, MENA, Africa)	WPSOPP	Time Bound Q4 2012	509	127	382	508	117	391
3.3. Two Thematic Peer Reviews of SOE Governance	WPSOPP	Time Bound Q4 2011	99	54	45	92	54	39
3.4. Balancing the Commercial and Non-Commercial Interests of SOEs: One Good Practice Report	WPSOPP	Time Bound Q4 2012	68		68	69		69

Pre-Accession(3)	**2011**	**2012**
Accession: Principles, Policies and Instruments	**107**	**-**

[1] TEC is equal to the sum of the Part I funds (Part I Budget and 'Other funding' proposals), Voluntary Contributions in Hand and New Voluntary Contributions.
[2] Secretary-General's proposed estimates of CPF allocations
[3] Output Area accession budgets are not financed by Part I but by pre-accession budgets contributed by the accession candidate countries.

End-users:

Ministries of Finance, Ministries of Economy, Ministries of Justice, Government of Russia, Governments, Regulators, State-owned Enterprises, Private Sector, Stock exchanges and judiciary, Civil society Groups, BIAC, TUAC, Policy makers in non-member countries

Stakeholders:

BIAC, TUAC

Expected Contributions from other OECD Output Areas:

1.1.2 Country Peer Reviews of Economic Policies, 1.3.2 Science and Innovation Policies, 2.3.3 Environment, Health and Safety (including Chemicals)

Co-ordination with Other International Organisations:

Name:	**Planned Co-ordination:**
World Bank	Coordination with the division responsible for Reviews of Observance of Standards and Codes in both Member and non-member countries. Coordination with the Insolvency unit in MENA.
International Finance Corporation (IFC)	Coordination with both the IFC and the Global Corporate Governance Forum in Latin America, Asia and MENA.
Basel Committee on Banking Supervision	Participation in their work on Corporate Governance of Banks.
International Organization of Securities Commissions (IOSCO)	Participation on an ad hoc basis in various working groups and in regional fora.
UN Development Programme (UNDP)	Coordination with UNDP in MENA.
UN Commission on International Trade Law (UNCITRAL)	Coordination in the Forum for Insolvency Reform in MENA (FIRM) and in Asia.

Gender Mainstreaming:

Gender issues would be handled through the peer reviews when dealing with board composition and diversity.

-- ADDITIONAL INFORMATION --

Voluntary Contributions Accepted in Previous Years and Planned for 2011-12:

	(K EUR)					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Previous Voluntary Contributions:	-	-	-	-		
Voluntary Contributions in Hand:					113	-
New Voluntary Contributions:					1 967	2 207

Operating Overheads:

	(K EUR)	
Item	**2011**	**2012**
Translation	0.0000	0.0000
Interpretation	0.0000	0.0000
Documents	0.0000	0.0000
Total	0.0000	0.0000

Global Relations Summary:

The Corporate Governance Committee and the Working Party on State Ownership and Privatisation Practices have adopted a strategy to work actively with some 40 non-member economies through regional programmes to support reform agendas in Asia, Latin America, the Middle East and North Africa, and Southern Africa. In addition, Enhanced Engagement countries are encouraged to participate as observers in the Committee/Working Party work and to undertake peer reviews. Brazil, China, India, Indonesia and South Africa have all participated as observers in Committee and/or Working Party meetings during 2009-10, and the Committee has adopted a strategy to make clear its interest in having them become regular observers. Brazil has already participated in a multi-country peer review in 2010, and the other EE countries will be invited to join multi-country peer reviews in 2011-2012. Following a Chinese self-evaluation and peer review discussion of Chinese corporate governance planned later in 2010, other EE countries, most likely Indonesia and India are planned. The Committee/Working Party strategy also envisions involving other G20 countries such as Argentina and Saudi Arabia as ad hoc observers and participants in future Committee work, particularly relevant for any eventual review of the OECD Principles of Corporate Governance. Through the Financial Stability Board, the G20 has endorsed the OECD Principles as one of its 12 core standards for financial stability which are currently under review.