

# Transparency and Disclosure Practices of State-Owned Enterprises and their Owners

Implementing the OECD Guidelines on Corporate  
Governance of State-Owned Enterprises



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# About this report

This stocktaking report synthesises national approaches towards implementation of Chapter VI of the OECD *Guidelines on Corporate Governance of State-Owned Enterprises* which addresses transparency and disclosure practices by SOEs and their owners. The focus of the stocktaking is on *large SOEs that are engaged in economic or commercial activities* and in particular those that are *active in competitive markets*. Enterprises concerned with public policy objectives were not the focus of this exercise. The information was gathered following a voluntary questionnaire exercise titled “Disclosure and transparency by the state-ownership entity and individual SOEs.” Information was self-reported from 27 jurisdictions, namely: Argentina, Belgium, Brazil, Chile, Costa Rica, Czech Republic, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Netherlands, Norway, Poland, Slovak Republic, Sweden, Switzerland, Turkey and United Kingdom.

This stocktaking report serves two purposes:

1. It takes stock of national transparency and disclosure practices by state-ownership entities and individual SOEs to inform the development of future work related to competitive neutrality which has focused a voluntary transparency standard for internationally-active SOEs and their owners.
2. It serves as input to the Working Party’s progress review taking stock of countries’ Implementation of the OECD Guidelines on Corporate Governance of State-Owned Enterprises ([OECD, 2020](#)) to be completed by 2020.

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# 1 Introduction and overview

## Context

The OECD Guidelines on Corporate Governance of State-Owned Enterprises (the “SOE Guidelines”) set the standard for ensuring that SOEs operate efficiently, transparently and on equal footing with private companies. One of their fundamental policy tenets is that SOEs should be as accountable to the public as listed companies are expected to be towards their shareholders. They also call for the state – which exercises the ownership of SOEs on behalf of the general public – to be transparent to its citizens about the objectives, operations and performance of SOEs. For individual SOEs, the Guidelines place emphasis on the availability of financial and non-financial information. For the ownership entity, emphasis is placed on aggregate reports that synthesise information on the performance of state-owned enterprises, which contribute to a culture of greater accountability in the public administration. (Box 1.1)

Since the SOE Guidelines were adopted over a decade ago, many countries around the world have instituted reforms leading to increased transparency in the state-owned enterprise sector, both at the level of individual SOEs and at the level of the state. Heightened disclosure practices have often occurred in tandem with other trends, including the professionalization of the state-ownership function, SOEs’ corporatisation and the listing of some SOEs on stock exchanges. In most cases, such efforts have brought practices closer to the aspirational standards set by the SOE Guidelines ([OECD, 2020](#)).

Despite good practices in a number of OECD and non-OECD economies, the level of implementation of the Guidelines in the area of transparency and disclosure still varies considerably from one jurisdiction to another. Globally, SOEs are often subject to a weaker disclosure regime than that applicable to listed companies. Practices vary in individual jurisdictions depending on the corporate form of an SOE and the size of the overall portfolio (with due regard to enterprise capacity and size).

Beyond variance in a particular country case, there is a general lack of available information on SOEs that is systematically collected, consistent, and comparable across jurisdictions.<sup>12</sup> Moreover, there is a lack of convergence and harmonisation across jurisdictions as to the information that is made available by the ownership entity in the form of an aggregate report – which is one of the recommendations of the OECD SOE Guidelines. As observed in [OECD \(2017\)](#), these differences may also reflect the degree of centralisation of the ownership entity (as efforts to centralise ownership have also gone hand in hand with other governance improvements), and its capacity to collect and aggregate financial and non-financial information regarding the broader state ownership portfolio. There is also variance across and in jurisdictions in terms of the completeness or accuracy of information that is provided by individual SOEs as part of financial and non-financial disclosure, as well as the level of implementation of applicable standards, and the quality of audit.

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<sup>1</sup> The OECD has filled some of these gaps by producing bi-annual comparatives studies on the size and sectorial distribution of SOEs (see [OECD, 2017](#)), as well as the “Compendium of National Practices” (see [OECD, 2018](#)).

<sup>2</sup> SOEs do not systematically report to the public in a manner consistent with the practices of listed companies.

### Box 1.1. Transparency and disclosure by SOEs and state-owners

#### **Excerpt from the Guidelines on Corporate Governance of State-Owned Enterprises - Chapter VI on disclosure and transparency on good practice standards for disclosure and transparency by state-owned enterprises and the ownership entity.**

State-owned enterprises should observe high standards of transparency and be subject to the same high quality accounting, disclosure, compliance and auditing standards as listed companies.

A. SOEs should report material financial and non-financial information on the enterprise in line with high quality internationally recognised standards of corporate disclosure, and including areas of significant concern for the state as an owner and the general public. This includes in particular SOE activities that are carried out in the public interest. [...]

[...]

B. SOEs' annual financial statements should be subject to an independent external audit based on high-quality standards. Specific state control procedures do not substitute for an independent external audit.

C. The ownership entity should develop consistent reporting on SOEs and publish annually an aggregate report on SOEs. Good practice calls for the use of web-based communications to facilitate access by the general public.

Source: [OECD \(2015\)](#) Guidelines on Corporate Governance of SOEs.

Transparency and disclosure of the state-owned enterprise sector has gained importance beyond the domestic reform agenda as SOEs compete in the global marketplace. According to the [OECD Business and Finance Outlook \(2020\)](#), 132 of the world's largest 500 enterprises (measured by annual revenues) are wholly or majority owned by sovereign governments. The trend is upward. Two decades ago, 34 of the largest enterprises were state-owned – in other words, the state's share has almost quadrupled.

As the boundaries of markets extend beyond geographic borders, regulators need to obtain necessary information on individual SOEs and the broader SOE sector of individual countries (e.g. for merger reviews, investment reviews or screenings, to monitor implementation of obligations in trade/investment or other multilateral agreements). (See [OECD, 2016](#) for a comprehensive overview).

Recent trends in treaty practice also highlight the need for *enhanced* standards of transparency and disclosure by state-owned enterprises. Recent documented approaches have focused on transparency and disclosure of information on the portfolio of companies owned by the state; governance frameworks; information about the extent of government ownership or control; and, non-commercial assistance provided to SOEs. These latter areas of disclosure are provided, upon request, by parties to help determine undue advantages granted by States or other actions undertaken according to non-commercial considerations, which are of concern if they result in competition distortions.<sup>3</sup> Approaches focused on

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<sup>3</sup> For example see CTPP-11, Chapter 17. <https://dfat.gov.au/trade/agreements/not-yet-in-force/tpp-11/official-documents/Documents/17-state-owned-enterprises-and-designated-monopolies.pdf>; USMCA, Chapter 22, [https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/22\\_State-Owned\\_Enterprises.pdf](https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/22_State-Owned_Enterprises.pdf); Japan-EU EPA, Chapter 13, [http://trade.ec.europa.eu/doclib/docs/2018/august/tradoc\\_157228.pdf#page=348](http://trade.ec.europa.eu/doclib/docs/2018/august/tradoc_157228.pdf#page=348)

transparency and disclosure are intended to facilitate compliance with treaty provisions and ensure effective dispute settlement.<sup>4</sup>

This report sheds some additional insight of national practices with regard to transparency and disclosure. It focuses in Chapter 2 on transparency and disclosure practices by SOEs operating in competitive markets; and, in Chapter 3 on transparency and disclosure practices by state ownership entities. Chapter 4 assesses the extent to which progress has been made with implementation of the SOE Guidelines. The report is intended to shed light on generally accepted transparency and disclosure practices, drawing on the SOE Guidelines as a point of departure, to inform the development of future standard setting on this important topic.

## Methodological note

Information in this report is drawn from a voluntary questionnaire circulated to ownership entities (and other relevant authorities) participating in the [OECD Working Party on State Ownership and Privatisation Practices](#). Information was self-reported by 27 jurisdictions: Argentina, Belgium, Brazil, Chile, Costa Rica, Czech Republic, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Netherlands, Norway, Poland, Slovak Republic, Sweden, Switzerland, Turkey and the United Kingdom. When relevant, this report also draws from recent information gathering exercises conducted by the Working Party including with regard to monitoring implementation of the OECD Guidelines (OECD, 2020) and recent stocktaking exercises with a focus on transparency and disclosure (conducted in 2016 and 2019).<sup>5</sup>

Responses have been aggregated into figures and tables (presented below) to give a picture of commonalities and differences among transparency and disclosure practices and identify where gaps may be most visible. Though it should be noted that there may be reporting discrepancies within the sample and even within individual responses. These discrepancies relate both to the design of the questionnaire and to varying interpretation of the questions. Responses may lack some consistency, *inter alia*, due to:

- A broad understanding of what disclosure is meant to represent – i.e. disclosure to Parliament, the general public, the market, the budget process, to the ownership entity;
- A lack of clarity if the respondents based their answers on legal reporting requirements or actual implementation practices;
- A reply indicating the category was unknown to the respondent has at times been confused with not applicable;
- A lack of clarity as to the reporting scope – i.e. whether applicable to all commercially-operating SOEs with international operations or a sub-set of a portfolio;
- For company groups, reporting is often based on the parent company with practices of subsidiaries not covered by questionnaire responses;
- Reporting limited to a sub-set of the commercial SOE portfolio or reporting of only publicly listed companies (for which reporting requirements are often more robust);

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<sup>4</sup> For example in some treaties there are provisions that establish tests with regard to determining whether one party has caused injury or adverse effects to another party.

<sup>5</sup> These include information gathering that occurred in the context of the Global Knowledge Sharing Network on Corporate Governance of State-owned Enterprises (see [OECD, 2016](#)) and for the Asia Network for Corporate Governance of State-owned Enterprises (see [OECD, 2016 and OECD, 2019](#)).

- Double reporting due to different categories of transparency and disclosure requirements applicable across subsets of enterprises for the same country<sup>6</sup>; and,
- A lack of consistency between sources of information disclosure – i.e. company annual reports; country annual aggregate reports; company annual letters; undisclosed government reports, etc.

The author has made some adjustments to the way information has been presented to account for some of these discrepancies.

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<sup>6</sup> Note that in the case of some respondent countries (Japan and Belgium) one or more answers were provided based on the relevant practices across a portfolio of companies. For this reason, answers across some categories surpass the total number countries that responded to the questionnaire.

## 2 Transparency and disclosure by state-owned enterprises

Ensuring a high quality of transparency and accountability is the very basis of any sound corporate governance regime. Information disclosure and higher standards of accountability in SOEs, can contribute to improved efficiency and performance of SOEs. Information disclosure including both financial and non-financial data is essential for the government, so it can be an effective owner; the Parliament to evaluate the performance of the state as an owner; the media to raise awareness on SOE efficiency; and taxpayers and the general public to have a comprehensive picture of SOE performance.

Transparency and disclosure is also key to maintain a level playing field with other market participants. It ensures that other market actors and even regulatory authorities can objectively assess SOEs' business and governance practices based on reporting based on a broad range of criteria, including: (1) corporate orientations of a SOE; (2) the clarity of objectives pursued by a SOE (i.e. public policy or other non-economic objectives); (3) its governance (i.e. by the government owner, ownership arrangements and regulatory treatment; and in the independence and autonomy of the board); (4) transparency, accountability and disclosure practices related to public policy objectives and non-commercial assistance; (5) the competitive situation of a SOE (regulatory treatment and funding and financing situation); and, (6) responsible business conduct practices.

The rest of this section is organised along the main themes of the questionnaire. For each theme, an explanation of the importance of transparency and disclosure of that particular issue is elaborated, and where relevant, draws on the added importance in a cross-border context. An overview of national practices are provided either in the form of comparative tables or aggregate form (graphic), and a description of a selection of practices are provided to demonstrate the prevalent practices across jurisdictions.

### Financial and non-financial disclosure and reporting obligations placed on SOEs

Transparency and disclosure practices will vary according to the size and commercial orientation of a company. As pointed out in the annotations of the OECD SOE Guidelines, a small SOE not engaged in public policy activities, would not have as onerous requirements as a large SOE active in competitive markets, and concurrently tasked with carrying out significant public policy objectives and where its treatment can have an impact on the level playing field. A publicly traded company or one that issues debt on capital markets will arguably have higher standards for transparency and disclosure, due to listing requirements, relevant securities regulation, and/or applicable corporate governance codes. Nevertheless, the robustness and completeness of disclosure and transparency requirements will vary considerably based on the legal form of the enterprise as well as the requirements set out in relevant laws, the quality of information disclosure, and the quality of audit. Moreover, disclosure to the general public as opposed to disclosure only to the government through relevant reporting channels may also differ significantly among jurisdictions and according to the SOE in question. Finally, although most jurisdictions do have

transparency and reporting requirements in place, the level of implementation and quality standards may vary across jurisdictions.

Almost all reporting jurisdictions apply the same disclosure requirements for large and commercially-operating SOEs as for private companies, either as determined by company law and/or the requirements set forth for publicly listed companies (in some cases even if the SOEs are not publicly traded). Additionally, in many cases, reporting jurisdictions supplement reporting requirements with additional requirements for SOE. These additional reporting requirements can cover a range of areas, including notably, on public service obligations, and reporting on funding and financing of non-commercial objectives.

Where SOEs are not listed or even subject to different corporate forms, consistent with the OECD Guidelines, the requirements for listed companies (or at the very least those stipulated by company law) are applied to SOEs, suggesting that when it comes to transparency and disclosure SOEs are subject to the same reporting requirements as companies in like circumstances.

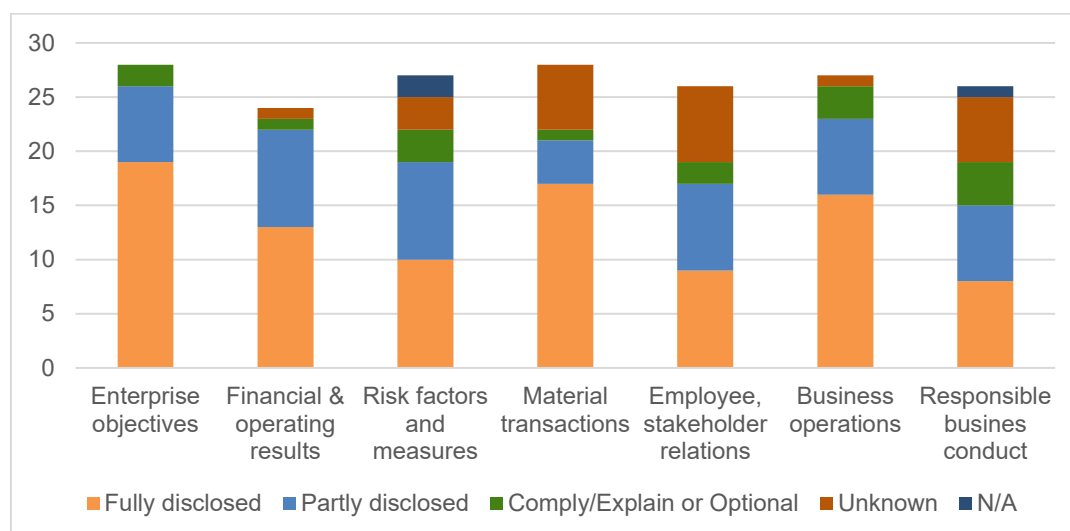
In some jurisdictions the requirements may only extend to financial disclosure whereas aspects of non-financial disclosure will depend on the applicable reporting requirements (Figure 2.1). A summary of country practices are provided in the Table 2.1 below. The legal requirements will emanate from a combination of:

- SOE-specific laws;
- Applicable company laws;
- Accounting laws;
- Public finance laws;
- National Corporate governance codes where applicable to SOEs;
- Listing requirements (whether or not publicly traded); and/or,
- Public information disclosure acts.

In a sub-set of countries disclosure requirements are more stringent for SOEs based on additional guidance or requirements set out in applicable laws. Two countries stand out in this regard. **Sweden** and the **United Kingdom** have specific manuals for SOEs to follow for financial disclosure. In **Sweden**, the requirements are set out in the “Guidelines for External Reporting of SOEs” which, in addition to financial and non-financial disclosure also require that SOEs publish sustainability reports concerning all stakeholders. In the **United Kingdom**, this requirement is applicable to all public bodies as stipulated in the “Government Financial Reporting Manual”.

The frequency of reporting is often related to the size and operations of a given company. In all jurisdictions, annual reporting is required. However, for small companies half-yearly and/or quarterly reporting may not be a requirement. Moreover, some jurisdictions, such as **France**, SOEs often voluntarily disclose more information than what is stipulated in requirements.

Figure 2.1. Transparency and disclosure by SOEs – general coverage of financial and non-financial reporting



Source: Author compilation based on country self-reporting.

### **Applicability of corporate governance codes**

Applicability of corporate governance codes to SOEs, which may lay out stipulations for transparency and disclosure do not uniformly apply to SOEs across jurisdictions. In some case, their applicability may be a systematic requirement (regardless of being publicly traded) where as in others it may only be required in cases where the company is subject to reporting by the code if publicly traded (e.g. **United Kingdom**).

On the latter point, although jurisdictions vary as to the implementation mechanism of the code and the legal status it may have<sup>7</sup> (i.e. mandatory, comply/explain, etc.), mandatory disclosure to the market regarding adherence to the codes is prevalent and has become a part of the annual reporting for publicly traded companies (OECD, 2015 and OECD, 2019). As such, requiring SOEs to comply with national corporate governance codes would, in effect, extend the corporate governance frameworks applicable to listed companies, to SOEs. Thus, compliance with such Codes can serve as an important benchmark to evaluate a company's corporate orientation.<sup>8</sup>

As noted above, only few OECD jurisdictions require commercial SOEs to apply the national code of corporate governance, although this is an emerging area of good practice.<sup>9</sup> For example, in **Sweden** and

<sup>7</sup> Implementation mechanisms differ significantly, with some being merely advisory, others being implemented (by stock markets or securities regulators) on a comply-or-explain basis, and yet others being mandatory. Annotations to Guideline IV.B state that “both listed and unlisted SOEs should always comply with the national corporate governance code, irrespectively of how “binding” they are.”

<sup>8</sup> National regulators or stock exchanges regularly analyse and publish a report regarding how listed firms disclose matters relating to adherence to the codes and whether they provide adequate explanations for non-compliance.

<sup>9</sup> In a number of countries, the code for listed companies includes reference to their applicability to SOEs. In a lesser number of countries SOEs are required, or in some cases recommended, to apply the corporate governance code for listed companies. An OECD study (2014) found that out of 33 codes analysed for non-listed SOEs, 28 codes target

**Estonia**, listed companies must comply or explain their application of the national corporate governance Code. In companies where the state owns a controlling interest, but whose shares are not publicly traded, the Code must be applied. A number of jurisdictions have established codes of governance specifically tailored for SOEs. This is considered a “second best” alternative, but nevertheless more common place where SOEs are not listed, and can contain important provisions of compliance<sup>10</sup> that are of particular importance to corporate orientation in ensuring SOEs compete on a fair, transparent, and level basis against their private-sector company counterparts.

### ***Responsible business conduct practices and stakeholder relations***

An increasing number of companies issue a separate sustainability reporting which covers a number of issues related to responsible business conduct as well as detailed reporting on stakeholder relations. This might include demonstrating an ability to conform to legal obligations (based on international obligations), but also specific policies with regard on human rights, health, safety, security consumer, anticorruption and sustainable business practices. Disclosing the company's track record can help to ensure that SOEs are in conformity with international commitments regarding these legal requirements. Information regarding any pending cases or any judgements may quell any doubts regarding a particular SOE's ability to conform to legal obligations; but also demonstrate a certain “higher” level of transparency and disclosure. (see Figure 2.2) For example, in **Sweden**, the SOE boards are responsible for companies to present sustainability reports in accordance with the Global Reporting Initiative (GRI)'s guidelines which are international standard guidelines for sustainability reports.

### **Compliance with laws, monitoring implementation and quality of disclosure**

Relatively few jurisdictions report specific sanctions or penalties imposed on the ownership entities or SOEs for non-disclosure. **Korea** stands out in this regard- the Ministry of Economy and Finance monitors all information registered in on-line inventory centralising information on SOEs (ALIO system) and can impose penalties on SOEs in case of negligent or imprecise information disclosure. Depending on the level of penalty, the Ministry can require applicable SOEs a plan on how to prevent recurrence and provide them with training program. For more blaring oversights, non-compliant companies are listed as “negligent SOEs” in ALIO system for 3 months and may require such companies to post this information on their website. Well performing companies are listed as “excellent SOEs.”

In the **Netherlands** there is a similar system of rankings for SOEs that comply with relevant requirements based on the so-called Transparency Benchmark, which ranks companies according to their level of transparency. SOEs can be fined if they do not publish their annual reports on-time. In **Lithuania**, although there is no system of penalties, the so-called “SOE Governance Index” ranks SOEs according their good governance practices.

It should not be overlooked that in most jurisdictions, the obligation to comply with legal reporting requirements lies with the governing bodies of the SOE. Failure to comply may result in the dismissal of responsible managers and directors and in some cases can constitute a criminal offence (e.g. **Germany**). In most jurisdictions, monitoring the accuracy of information provided by SOEs lies with the responsible institutions, such as the responsible ministries, the Parliament (which often receives reporting by SOEs or their ownership entities), and ultimately with Supreme Audit Institutions.

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only SOEs; three target private companies and SOEs; and in one country, SOEs are required to comply with the corporate governance code for listed companies (see also [OECD, 2019](#)).

<sup>10</sup>Like for national corporate governance codes, Implementation mechanisms for SOE-specific codes vary by jurisdiction. In a majority of countries that put into place specific SOE codes, compliance with the code is required.



Table 2.1. Transparency and disclosure practices by country

Economy	Financial and non-financial disclosure requirements	Equal to privately-owned companies	Specific SOE requirements	Publicly Available	Penalties for non-compliance
Argentina	There are general financial and non-financial disclosure obligations for all SOEs and/or for SOEs operating in particular segments of the economy. SOEs are required to submit monthly budget execution reports to the National Budget Office (ONP). For listed companies, the practices are in line with listing requirements. By law listed SOEs disclose in the following areas: 1) facts and/or decisions which can <b>impact the value of company's shares</b> , 2) <b>accounting, corporate governance</b> and financial information, 3) change of ownership of more than 5% in the company's shares, 4) related party transactions, and 5) appointments of board members. Important to note is that, annual financial statements of SOEs may not be available in the public domain.	✓	✓	✗	✗
Belgium	Listed SOEs publish annual and quarterly financial statements as required by national listing requirements, in addition to non-financial reporting on major ownership changes impacting voting rights; information that can affect the price of securities; and any other information necessary for shareholders to exercise their rights.	✓	✗	✓	✗
Brazil	Reporting requirements are in line with those required by the Brazilian Securities and Exchange Commission rules, but are supplemented by additional requirements for SOEs, including notably in the area of disclosure of public policy objectives by SOEs (and state-controlled entities and <b>subsidiaries</b> ), <b>which SOEs are required to report on in the form of an "annual letter" addressed to the state-ownership entity</b> . Any such objectives are equally reported in an explanatory note to the SOEs financial statements. SOEs are required to disclose financial statements and accompanying documents online.	✓	✓	✓	✗
Chile	SOEs are bound by the reporting requirements of listed companies as set by the securities market regulator. The format of the reporting is not standardised but it includes at minimum an overview of the business activities of SOEs, their sectors of operations, organisation chart, risk factors investment plans management and employee make-up. In addition, financial reporting, including external audit statements are included in the annual report. Additional information regarding the organisation structure of SOEs, quarterly financial reports (in addition to the annual reports); board and executive remuneration information are subject to transparency requirements by the government and must publish this information on their website.	✓	✗	✓	✗

Economy	Financial and non-financial disclosure requirements	Equal to privately-owned companies	Specific SOE requirements	Publicly Available	Penalties for non-compliance
Costa Rica	SOEs are required to publish at minimum audited annual financial statements as well as an annual report including non-financial information, such as strategic objectives of enterprises board composition qualifications and remuneration; human resource policies including remuneration and succession policies; policies regarding conflicts of interest, stakeholder relations, and more. The financial and non-financial reporting are made publicly available. In addition, additional reporting on budget performance and other areas of information relevant to transparency are made available to the Comptroller General. <b>State-owned financial institutions are subject to additional requirements including publishing a "Corporate Governance Report" annually. Individual SOEs may be subject to specific disclosure requirements</b> as determined by their sectorial operations as well as subject to disclosure requirements required by securities regulation if issuing securities.	✓	✓	✓	✗
Czech Republic	All SOEs publish financial statements on an annual basis based on the requirements of Company Law.	✓	✗	✓	✗
Estonia	All SOEs have the obligation to publish audited annual financial statements online and share these with the Business Register. For majority-owned SOEs, quarterly financial reports published online are obligatory. Large SOE have additional reporting requirements in line with listed private companies which requires explanatory notes to financial results and to announce important events on the website.	✓	✗	✓	✗
Finland	SOEs publish annual financial statements; while others publish quarterly reports.	✓	✗	✓	✗
France	SOEs are bound by the reporting requirements of listed companies as set by the securities market regulator. This includes both financial and non-financial annual (and quarterly) reporting requirements for which all listed SOEs are in conformity with. In addition, SOEs can voluntarily submit additional reporting in areas pertinent to their operations, which can be considered communication tool for analysts and potential investors to judge the company on other relevant criteria, including legal, economic, financial, accounting and other issues. All listed SOEs produced this additional report.	✓	✗	✓	✗
Germany	All SOEs are bound to produce, at minimum, annual financial statements according to the Commercial Code. SOEs that are large, and incorporated as in the form of limited share must produce extended financial disclosure which includes cash flow statement and shareholder equity statement. SOEs incorporated as <b>"private companies" following the same extended disclosure requirements as limited share companies.</b>	✓	✗	✓	✗
Greece	SOEs are required as per company law to publish annual financial statements.	✓	✗	✓	✗
Hungary	According to Accounting Act SOE prepare an annual report including financial and non-financial disclosure. The report should include information <b>related to public interest activities. Additional reporting requirements for SOEs include: business operations' data; and collective investment forms.</b> Fund management companies are subject to additional disclosure accounting requirements.	✓	✓	✓	✗
Iceland	SOEs incorporated as public limited liability companies as well as other SOEs submit annual financial statements. The former are required to do so according to the Accounts Act, and the latter according to the Public Finance Act. The Ministry of Finance and Economic Affairs formulates the requirements for information that requires disclosure in annual reports and other related financial and non-financial information.	✓	✓	✓	✗

Economy	Financial and non-financial disclosure requirements	Equal to privately-owned companies	Specific SOE requirements	Publicly Available	Penalties for non-compliance
Israel	<b>SOEs are required to publish annual reports in accordance with the provisions of the Government Companies' Law [1]</b> , which requires SOEs to submit audited financial reports including declarations of the managers and a <b>directors' report, report on the work of the Board of Directors, internal audit and internal controls</b> , and a detailed budget performance report. The Ministry of Finance (through the GCA) may put forth additional reporting requirements towards SOEs. It is reported that a majority of government companies are compliant with these provisions	✓	✓	✓	✗
Italy	All SOEs publish annual financial statements and half-yearly reports. Listed SOEs that issue financial instruments are subject to the same level of financial and non-financial disclosure as publicly traded entities. Disclosure consists of financial statements, as well as a corporate governance report covering capital structure, ownership structure and legal restrictions in their trading, voting rights (limitations and formal agreements between stockholders, adherence to corporate codes if applicable, and board composition, functioning, committees.	✓	✗	✓	✗
Japan	Listed SOEs submit annual (and quarterly) securities reports in accordance with laws and regulations. This reporting also includes relevant non-financial information of the SOE.	✓	✗	✓	✗
Korea	Under the Official Information Disclosure Act, all public institutions including all SOEs in Korea are required to report and disclose corporate information to the general public through the internet-based portal called ALIO (All Public Information in One) inventory system (see <a href="http://www.alio.go.kr">www.alio.go.kr</a> ). The information includes number of employees, information on executives, financial statement, profit and loss statement, income and expense statement, tax, audit report, external evaluation report among many others	✓	✓	✓	✓
Latvia	By law all majority-owned SOEs are required to publish annual financial statements and general strategic objectives on their website as well reporting on a number of other key areas, inter alia, implementation of financial and non-financial objectives, dividend payments, funding assistance; cross-shareholdings; and board composition. Annual financial statements are required to be published. It is reported that a majority of SOEs are compliant with these requirements.	✓	✓	✓	✗
Lithuania	Large limited liability companies produce 6 month and annual financial statements; large SOEs produce quarterly and annual financial statements along with 6 month performance reports.	✓	✗	✓	✗
Netherlands	All SOEs publish annual financial statements.	✓	✗	✓	✓
Norway	<b>All SOEs are required to publish annual financial statements as per requirements set out in company's law. For listed SOEs</b> , additional semi-annual reporting requirements exist. Listed SOEs are pursuant to the stock exchange rules also required to report on compliance with the Norwegian Code of Practice for Corporate Governance. Wholly-owned SOEs with commercial objectives (that are not defines as "small enterprises as per the Norwegian Accounting Act) should strive to be as transparent as listed companies, and should strive to follow the Code, as applicable and unless special circumstances dictate otherwise.	✓	✗	✓	✗
Poland	Publicly traded SOEs are bound by the reporting requirements as set by the securities market regulator and relevant listing requirements, which includes annual and quarterly financial reporting. For non-listed SOEs, the same disclosure requirements apply as per company law.	✓	✗	✓	✗

Economy	Financial and non-financial disclosure requirements	Equal to privately-owned companies	Specific SOE requirements	Publicly Available	Penalties for non-compliance
Slovak Republic	All SOEs are required to publish annual financial statements as per the Accounting Law.	✓	✗	✓	✗
Sweden	For majority-owned SOEs, the government has adopted specific guidelines to complement existing reporting legislation in the area of transparency and disclosure. SOEs much publish annual and quality reports in accordance with requirements for publicly traded companies, and the corporate governance Code. In addition, the annual reports of SOEs much report on a number of areas including, <i>inter alia</i> , key financial indicators (financial and non-financial targets, dividend policy), sustainability reporting, application of the state-ownership policy, including board and executive remuneration practices; and attainment of public policy targets (if applicable). SOEs produce a separate sustainability reporting.	✓	✓	✓	✗
Switzerland	SOEs produce and make public annual reports according to requirements set out in Company Law. In addition, SOEs are required to report on an annual basis to relevant line Ministries and/or the Ministry of Finance on the fulfilment of strategic objectives. The latter annual report is not made public. Based on this information, the Federal Council prepares two reports for the attention of the parliament on an annual basis: An in-depth report (not public) and a short 4-page summary for all SOE (aggregated report, made public)	✓	✓	✓	✗
Turkey	Requirements for SOE disclosure are determined by government Decree on an annual basis. Financial disclosure to the Treasury and Ministry of Finance is required on a quarterly basis. Annual reports are published online.	✗	✓	✓	✗
United Kingdom	<b>SOEs which are companies have to comply with the financial disclosure requirements of the Companies Act 2006 (the "Act").</b> The Act requires varying levels of detail in the annual financial reporting required of companies depending on certain criteria e.g. number of employees, turnover and balance sheet. In addition, SOEs that are listed companies will have additional disclosure requirements. All SOEs, whether they are companies or other types of public body, for example, executive agency or trading fund must comply with the Government Financial Reporting Manual.	✓	✓	✓	✗

*Note[1]:* Note that Companies Law applies to SOEs except when alternative provisions have been specified in the Government Companies Law, and listed SOEs are subject to the Securities Law

*Source:* Author compilation based on self-reporting.

## Control environment

The quality of financial and non-financial reporting greatly matters and may also vary among jurisdictions. For this reason, the control environment remains an important guidepost to understanding the reliability and credibility of financial reporting by SOEs. Of course, the confidence one places existing controls depends largely on the quality of audit (auditor independence, technical training and proficiency and engagement performance) in a given jurisdiction. Guideline VI.B states: “*SOEs’ annual financial statements should be subject to an independent external audit based on high-quality standards. Specific state control procedures do not substitute for an independent external audit*”. There is a tendency for some governments to rely mainly on existing state auditing bodies and other intra-government control instances to oversee SOEs, but the OECD SOE Guidelines recommend that, in order to reinforce trust in the information provided, the state should require all large SOEs be subject to external audits that are carried out in accordance with international standards – when operating in a cross-border context, the use of internationally accepted standards is of critical importance. Differentiating factors among the quality of reporting among jurisdictions will vary according to the applicable of high quality international accounting and auditing standards; the robustness of internal controls; and the pervasiveness of independent external audit.

The extent to which SOEs are subject to high quality international accounting and auditing standards will matter in terms of the quality of financial reporting. The IFRS standard (or the national equivalent) often prevail, but it should be mentioned that some jurisdictions may still use national accounting standards depending on the size and nature of a SOEs’ operations. For **EU countries**<sup>11</sup>, national accounting standards need to be in accordance with the EU acquis and the IFRS to ensure the quality of SOE corporate disclosure in the country. Identifying the material differences between the two standards goes beyond the scope of this report, but previous OECD work has pointed to differences in valuation methods among other areas.

The robustness of SOE internal controls, including internal audit functions determine the accuracy, timeliness and frequency of financial (and non-financial) reporting in a SOE. Concerning internal controls, practices differ across jurisdictions. In most cases, the requirement to have an internal audit function will rely on the size and operations of the SOE, and other requirements set forth by relevant listing requirements if publicly traded. Where internal audit functions exist, it is almost systematic for them to have a direct reporting line to the (relevant committee of) supervisory board. Note, that in a minority of countries it is reported that not all SOEs have supervisory boards. In some Latin American economies (**Argentina, Brazil, Costa Rica**) it is not unusual to have the internal audit function also report to the state comptroller. In **Korea** and **Turkey**, there are systematic audits by the state Board of Audit and Inspection and Court of Accounts, respectively. Whereas in **Hungary** and **Poland**, there are no requirements for SOEs to have internal audit functions (unless otherwise prescribed by listing or other requirements).

The requirement to subject SOEs financial statements to independent external audit is virtually pervasive (except in the case of **Costa Rica**), with most countries setting forth requirements for the rotation of

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<sup>11</sup> For European jurisdictions, accounting rules should be in line with relevant European directives including ensuring accounting is consistent with international accounting principles, based on reliable information resulting in a true and fair view with respect to a company’s profitability, financial position and performance, assets and holdings, and future plans. For companies listed in EU stock exchanges IFRS is mandatory. Moreover, rotation of the auditor is a requirement in EU jurisdictions.

external auditor according to prescribed regulations (including for all **EU and EEA** economies<sup>12</sup>). However, there are some exceptions where SOEs are still subject to state audit procedures.<sup>13</sup> For example, in the **United Kingdom** public audit functions (Comptroller and National Audit office) provide an independent audit opinion on a range of public bodies, including SOEs (e.g. those that take the form of executive agencies, trading funds or non-ministerial government departments) or where there is a requirement under legislation for the comptroller and auditor general to perform the independent audit. Whereas for incorporated SOEs in the United Kingdom (e.g. limited companies), the entities have the choice to request state audit on a voluntary basis or can choose an alternative independent auditor – the latter of which is recommended by the SOE Guidelines.

The scope of state audit procedures vary considerably across jurisdictions. In some cases, state audit procedures supplement the external audit. While in most others, state audit occurs on *ad hoc basis* and is not intended to duplicate existing independent external audit, rather such audits serve to evaluate the efficiency of use of public assets and finances, and observance of legal regulations. In at least 10 countries covered by this report, state audit is mandatory on a yearly basis on top of existing internal and independent external controls (**Argentina, Belgium Brazil, Hungary, Iceland, Italy, Japan, Korea, Poland and Turkey**). In the case of **Iceland**, state audit is used in lieu of external independent audit for companies that are not large nor publicly traded; the state audit covers both financial and performance auditing.

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<sup>12</sup> Note that that for EU and EEA economies audit practices are determined by the European Commission's Audit Directive and is applicable to all public interest companies defined as listed companies, credit institutions, insurance undertakings, or other undertakings designated by EU countries to be of public importance.

<sup>13</sup> OECD (2016), based on a survey of 12 jurisdictions, found that in many jurisdictions which are at a relatively early stage of implementing the OECD SOE Guidelines, still lack comprehensive legal and regulatory frameworks aimed at enhancing disclosure and transparency in SOEs. Moreover, in these jurisdictions SOEs may not be systematically subject to high-quality international accounting and auditing standards. This can be attributed, *inter alia*, due to a lack internal audit function in SOEs and a lack of financial statements being subject to independent external audit, which could potentially compromise quality of disclosed information. In other cases, the quality of information can also be compromised if there is a lack of an established "auditing culture" or profession in a given jurisdiction

Table 2.2. Accounting and audit standards applicable to SOEs

	Accounting standard	Independent External audit	State audit	Internal audit/controls*
Argentina	IFRS – listed National accounting standard – non-listed	Listed and financial SOEs Large non-listed SOEs	Non-listed SOEs	All SOEs reporting to the board and Federal internal audit agency
Belgium	IFRS National accounting standard	Listed SOEs	Listed SOEs – public accounts	Listed SOEs reporting to board
Brazil	IFRS	All SOEs	All SOEs	All SOEs reporting to board
Chile	IFRS	All SOEs	Ad hoc basis	All SOEs reporting to the board
Costa Rica	IFRS – non-financial SOEs (in progress) IFRS 2011 – state-owned financial institutions National accounting standard – 1 SOE	Financial SOEs (Mandatory) Non-financial SOEs (not legal requirement)	Ad hoc basis	All SOEs reporting to the board and comptroller general [1]
Czech republic	IFRS	All SOEs	Ad hoc basis	All SOEs
Estonia	IFRS – if listed or required by creditors National accounting standard	All SOEs	Ad hoc basis	All SOEs reporting to the board [2]
Finland	IFRS – if listed National accounting standard	All SOEs	Ad hoc basis	All SOEs reporting to the board
France	IFRS Other applicable norms – company dependent	All SOEs	Ad hoc basis	Large SOEs reporting to the board
Germany	IFRS- if listed or incorporated National accounting standard – SME	All large SOEs[3]	Ad hoc basis	Large SOEs reporting to <b>“management/group leadership”</b>
Greece	IFRS National accounting standard	All SOEs	n/a	All SOEs reporting to the board
Hungary	IFRS – listed and financial institutions IFRS (optional) – other SOEs National accounting standard - Others	All SOEs	All SOEs – yearly	No requirement
Iceland	IFRS – listed National accounting standard	All SOEs	All SOEs	Large and listed SOEs reporting to the board*
Israel	IFRS-listed SOEs IFRS (optional) – large SOEs National accounting standards - Others	All SOEs	Ad hoc basis	All SOEs reporting to the board
Italy	IFRS- listed SOEs IFRS (optional)- Large SOEs National accounting standards- Small SOEs	All SOEs	All SOEs (annual basis)	All SOEs reporting to the board
Japan	Japanese GAAP US GAAP IFRS <b>Japan’s Modified International Standards</b>	Listed SOEs[4]	All SOEs	All listed SOE reporting to the board
Korea	IFRS	All SOEs	All SOEs	Large SOEs reporting to the board

	Accounting standard	Independent External audit	State audit	Internal audit/controls*
Latvia	IFRS – large SOEs National accounting standard – remainder portfolio	All SOEs	Ad hoc basis	Large SOEs reporting to the board*
Lithuania	IFRS – large SOEs IFRS (optional) – others National accounting standard - others	All SOEs	Ad hoc basis	Large and public interest SOEs reporting to the board*
Netherlands	IFRS (optional) National accounting standard – others	All SOEs	Ad hoc basis	Most SOEs reporting to the board
Norway	IFRS- listed SOEs and SOEs with listed bonds IFRS (optional)/National accounting standard – Others	All SOEs	Majority-owned SOEs[5]	All SOEs reporting to the board
Poland	IFRS – listed SOEs and banks National accounting standard – Others	All SOEs	All SOEs	No requirement
Slovak Republic	IFRS – banking and insurance, large SOEs[6] National accounting standard - Others	All large SOEs[7]	Ad hoc basis	Large SOEs reporting to the board
Sweden	IFRS – large SOEs National accounting standard – Small SOEs	All SOEs	Ad hoc basis Majority-owned SOEs[8]	Large SOEs reporting to the board[9]
Switzerland	IFRS. Swiss GAAP – listed SOEs and SOEs in competitive markets National accounting standard – Others	All SOEs	Ad hoc basis Majority-owned SOEs	Large SOEs reporting to the board[10]
Turkey	National accounting standard	All Large SOEs	All SOEs- yearly	All SOEs reporting to the board
United Kingdom	IFRS (adapted for public entities)	All SOEs (state audit can substitute)	All SOEs	All SOEs reporting to the board

Note: This table applies to practices of large, commercially oriented SOEs. Practices may differ for SOEs, which are primarily carrying out non-commercial objectives. Internal audit functions, are often reporting to the board, or relevant board committees where they have been established, unless otherwise specified. \* denotes where boards exist.

1 The state Comptroller General has oversight powers over SOE internal audit functions.

2 Audit committees are mandatory only in large SOEs.

3 As per sec. 316 of the Commercial Code.

4 Responses are based on the practices of Japan Post Holdings, NTT and JT.

5 **In the case of Norway, the state audit body audits the ministry's administration of state-ownership**, which is more about monitoring state-ownership practices than evaluating individual SOEs.

6 As determined by thresholds for assets and turnover.

7 Threshold is determined by the Law of Accounting (§19 act no. 431/2002) which has three size thresholds per accounting period (one year) for companies. The threshold for assets is 1 mill. EUR, for net turnover is 2 mill. EUR and for number of employees is 30 employees. If a company surpass at least 2 out of these 3 thresholds, its individual financial statements must be subject to an external audit by an independent audit firm.

8 Note this is mainly and entitlement for SOEs where state has a controlling influence and subject to statutory regulations. It is reported that the Audit office has not performance financial audits of individual SOEs in years, and focusing on performance and efficiency of the SOE sector more generally.

9 Note for some companies that do not have separate internal audit functions the board needs to annually evaluate the need for it and explain its decision in its report.

10 Companies are not explicitly required to internal audit as a corporate body, however the board has the obligation to organise financial control, which is also assessed by independent external audit. The corporate governance principles also recommend establishment of such functions which if established should report to the board as a whole or relevant board committees.

Source: Author based on country self-reporting.

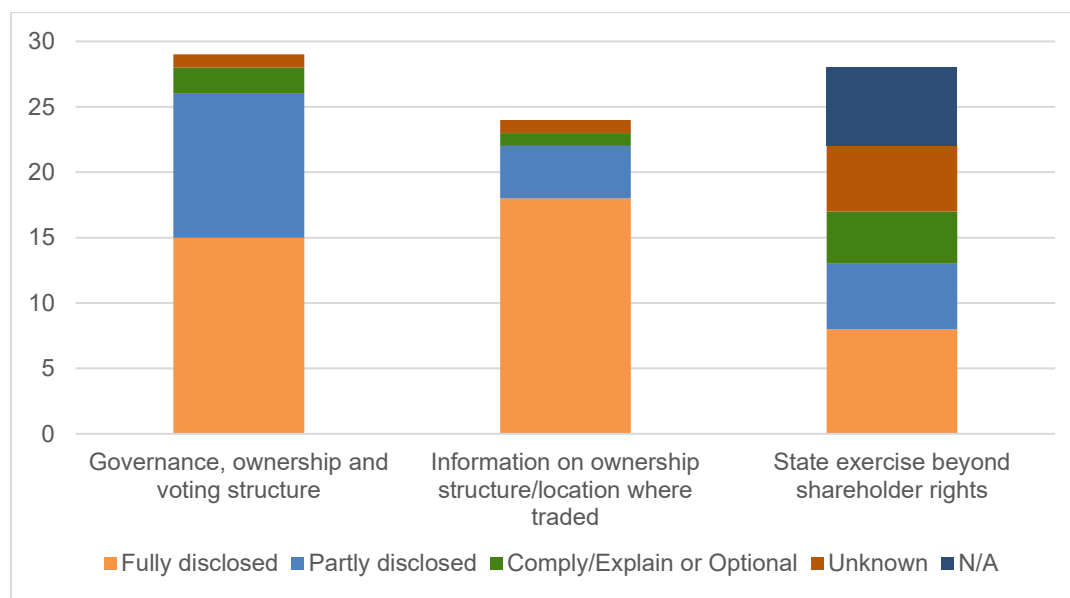


## Transparency and disclosure by SOEs on their ownership and governance

### **Governance, ownership and voting structure**

SOEs should publish information on their ownership structure and other relevant information. This might be found in the annual report or on the company website, depending on reporting requirements and company practices. Where there are non-state owners as part of their share capital, specific transparency and disclosure might especially be warranted on: (1) related party transactions; (2) specific shareholder rights exercised by the state (e.g. veto power or golden shares)<sup>14</sup>; (3) any business decisions or changes in the capital structure that would appear to favour the controlling shareholders. (Annotations to Guidelines IV.A.1) Even in the absence of material transactions, SOEs' organisational and corporate links with other related entities should be adequately disclosed. As summarised in the figure, SOE practices differ in this area subject to legal disclosure requirements for SOEs or applicable more generally to the corporate sector, or even as set out in various national codes of corporate governance. (See Figure 2.2)

Figure 2.2. Disclosure with regards to governance, ownership and voting structure



Source: Author based on country self-reporting.

In the absence of reporting requirements stipulated by corporate governance codes, in most jurisdictions there are no set requirements for the disclosure of control structures. For SOEs where the state may retain golden shares or special shareholder controlling rights, most countries report that this would normally appear in legislation (available in the public domain) or disclosed in a combination of the annual report or publicly available articles of association.

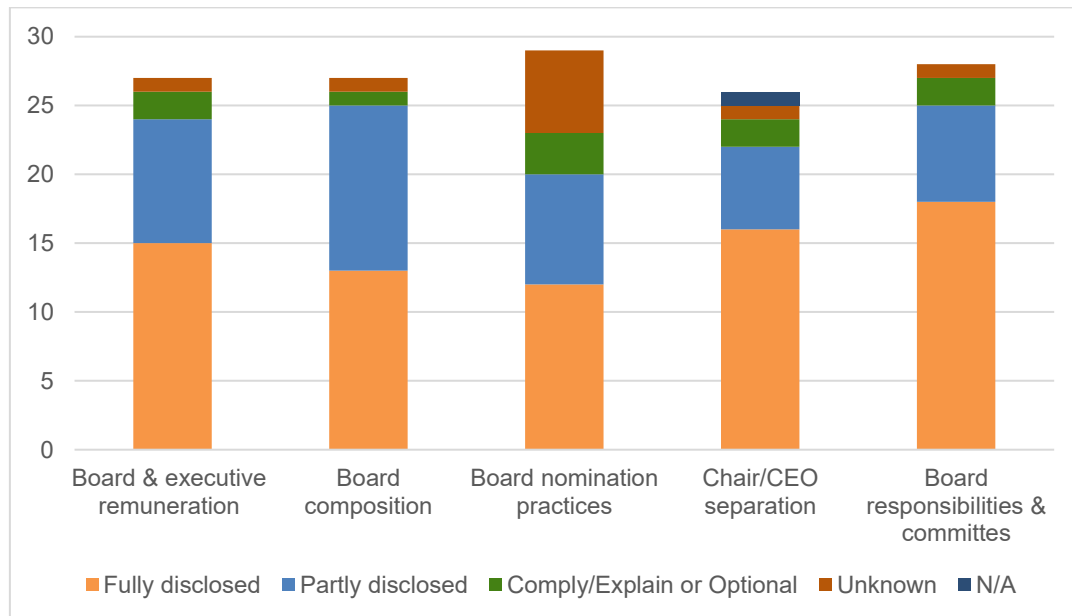
<sup>14</sup> This includes participation and voting in shareholder meetings; obtain sufficient information on the corporation on a timely and regular basis; elect and remove members of the board; approve extraordinary transactions; and, vote on dividend distribution and enterprise dissolution.

### Disclosure on the governing bodies of the SOE

An important factor underlining the credibility of the governance of a company is by being transparent about the composition, autonomy and independence of its governance bodies. This including the autonomy and independence of the board of directors, which is a particular area of concern when it comes to SOEs and in some cases may be necessary information for specific regulatory review procedures.<sup>15</sup>

Figure 2.3 summarises prominent practices with regard to disclosure requirements in the following areas: board and executive remuneration; board composition; board nomination practices; disclosure on the separation of role of the Chair and CEO; disclosure of board responsibilities and board committees.

Figure 2.3. Disclosure on board practices



Source: Author compilation based on country self-reporting.

On the topic of board disclosure, practices vary across jurisdictions and higher levels of disclosure will often be driven by requirements set out in company law or (mandatory) listing requirements set out in relevant regulation and corporate governance codes. Over half of reporting jurisdictions indicate that board and executive remuneration, composition and responsibilities (e.g. board committees) are fully disclosed by companies in their annual reports or separate corporate governance reports (though often applicable only to large SOEs). It should be noted that state-ownership entities may also disclose specific guidance for boards with regard to executive remuneration practices; and director remuneration will often be determined according to statutory or policy limits on remuneration set by the ownership entity – a recent OECD survey found this to be the case in over 70% of reporting jurisdictions (OECD, 2018).

<sup>15</sup>For example in a merger review, a regulator would evaluate the combined market share among entities owned by the same parent/holding company, or government agency, which can be viewed as impeding competition. Some of the decisive information that regulators have used in the past included, among other factors, board independence and autonomy.

On board nomination practices, there appears to be no one-way to go about providing disclosure in this area. In some jurisdictions, established practice is to disclose candidates proposed by the nomination committee (where it exists) and decisions enacted by the general shareholders meeting on such appointments. The state as the shareholder is more inclined to provide an overview of board nomination frameworks applicable to SOEs where it retains the power to designate individual board members.

### Transparency and disclosure by SOEs relevant to competitive neutrality<sup>16</sup>

The OECD SOE Guidelines recommend disclosure of non-commercial assistance from the state to SOEs, but also the inclusion of such information in regular financial reporting. Disclosure should include details on any state grant or subsidy received by an SOE, any guarantee granted by the state to the SOE for its operations, as well as any commitment that the state undertakes on behalf of an SOE.

However, it should be noted that there is considerable variance across jurisdictions as to what legal requirements are and applicable accounting standards. Furthermore, state guarantees, capital injections and grants are not considered as subsidies and may be subject to separate reporting requirements set by relevant accounting standards applicable to SOEs.

Among 27 jurisdictions, 10 report that there are no public disclosure requirement in this regard. In all cases disclosure on is made as part of reporting requirements towards their state-owners but is not made available to the general public.

In other reporting jurisdictions, SOE are required to disclose financial assistance or state aid in their annual report or annual financial statements (**Costa Rica, Belgium, Estonia, Finland, Germany, Israel, Italy, Korea, Latvia, Lithuania, Norway, Slovak Republic, Sweden, Switzerland, United Kingdom**), but this disclosure may be only partially covered and limited to requirements set by applicable accounting standards (e.g. in the **United Kingdom** it is reported that IAS 32/IFRS 9 is the reference).<sup>17</sup> In a small subset of jurisdictions, qualitative information on the nature of financial assistance may be further disclosed and can include details on the form of financial assistance/subsidy/state aid received; the date and duration; and total amount received/budgeted.

In some cases, the public body that is competent to grant the subsidy or financial assistance is subject to reporting requirements as per government budgeting processes for public debt management purposes or to maintain track of subsidies/state aids (**Iceland, Hungary, Greece,**). For example, in **Iceland** the Ministry of Finance and Economy submits to parliament explanatory notes seeking approval, among other things, of government guarantees to and financial arrangements with SOEs. The **Czech Republic** and **Switzerland** maintain a legal registry for state aids and subsidies. Whereas in **Sweden**, in some cases SOEs themselves would have to submit information on financial assistance and/or state guarantees to the Competition Authority, upon request (the actual reporting would be made public by the state through its budgetary process and in the annual aggregate report).

Where state enterprises are compensated for their public service obligations companies should account separately for economic and non-economic activities, according to the Transparency Directive (all **EU and EEA economies** are required to produce separate accounts in this regard). The existence of separate accounts gives the possibility to monitor public funds extended by the government for public service obligations.

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<sup>16</sup> Note: this section is non-exhaustive and will be supplemented with additional information in a future iteration.

<sup>17</sup> According to IAS 32 financial instruments are classified into financial assets, financial liabilities and equity instruments. IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items.

In the case of an internationally-active SOE this type of transparency and disclosure is also important as regulators and other market actors will seek to ensure themselves that the SOEs does not depart from commonly accepted corporate norms or, if they do, that the nature of their operations is fully disclosed prior to their market entry. National practices are summarised in Table 2.3.

Table 2.3. Reporting requirements for SOEs on financial assistance including guarantees

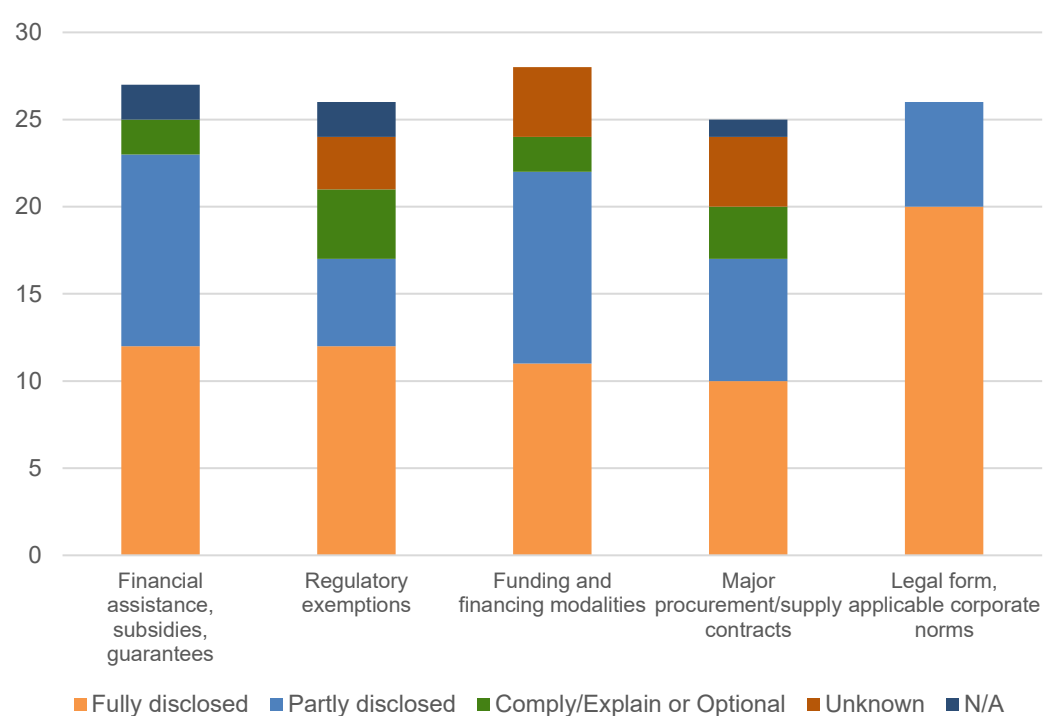
Country/Requirement (Y/N)	Explanation
Argentina	N SOEs are required to report on financial assistance received. [No information is provided as to whether this information is made public.]
Belgium	Y SOEs are required to report on financial assistance received (if applicable). This information is made public in the annual report, including legal basis, policy objective, form, dates and duration, and total amount.
Brazil	N SOEs disclose fulfilment of non-commercial objectives in an annual letter to the ownership entity; also in explanations related to financial reporting. However, financial assistance is not covered within the scope of this reporting.
Chile	N SOEs that are beneficiaries of state guarantees report to the ownership entity on the achievement of various performance indicators.
Costa Rica	Y SOEs are required to disclose transfers received by the state. This information is made public in the annual financial statements and includes form of financial assistance/subsidy, date and duration, total amount received or budgeted.
Czech Republic	N Legal registry for state aids and subsidies (CEDR). [No information provided on SOE disclosure practices.]
Estonia	Y SOEs are required to report on financial assistance received in annual reports. The disclosure requirements are the same for private companies. Estonia also has public State Aid Register where state assistance is publicly disclosed.
Finland	Y SOEs are required to report on financial assistance received in annual statements.
France	-- --
Germany	Y SOEs are required to report on financial assistance as required by the applicable accounting standard. State guarantees, grants and capital injections are not reported by SOEs.
Greece	N SOEs are required to report on financial assistance received according to EU legislation to the relevant line Ministry and General Accounting office of the Ministry of Finance.
Hungary	N Public authorities must report the list of beneficiaries of subsidies.
Iceland	N Public authorities must report on government guarantees as part of public debt management reporting.
Israel	Y SOEs are required to report on financial assistance received as required by accounting standards; as a result, there is only partial reporting in this area.
Italy	Y Financial assistance compliant with EU legislation is indicated in financial statements with references to the authorizing law/regulations
Japan	N/A No financial assistance is received.
Korea	Y SOEs must disclose their revenues, annual endowments and grants.
Latvia	Y Majority owned SOE are required to report on financial assistance received. For large companies this information is found in the annual report in relation to revenues/subsidies received (EU co-financed projects); in other cases, financial assistance agreements are also made public.
Lithuania	Y Apart from general accounting requirements no further disclosure is required.
Netherlands	N The SOE must report to the ownership entity on its financial position if it is subject to state guarantees.
Norway	Y SOE are required to report on financial assistance in their financial statements.
Poland	N Specific procedures apply based on the sources of funding, including state earmarked funds (Re-privatisation fund) or funding from other institutions (Development fund)
Slovak Republic	Y SOE are required to report on financial assistance in notes of the financial statements.
Sweden	Y SOEs that are covered by the Transparency Act must report on how funds were used. Additional reporting rules apply to companies that conduct operations in certain sectors, including those with monopoly rights, and which may be exposed to competition in certain segments of their operations. Additional reporting to the Competition Authority, upon request.
Switzerland	Y Financial assistance must be disclosed in notes relating to financial accounts. The government has a separate database where data on recipients of subsidies can be found.
Turkey	N These are reported to the Treasury and Ministry of Finance but not to the general public.
United Kingdom	Y The reporting for other forms of financial assistance such as guarantees will be determined by reference to international accounting standards (IAS 32/IFRS 9) and Parliamentary reporting requirements.

Source: Author based on country self-reporting.

Additional areas of transparency and disclosure relevant to competitive neutrality (see summary of national practices in Figure 2.4) might include:

- Information on regulatory exemptions for SOEs (e.g. regulations, rules, laws, procurement practices, monopoly rights, etc.);
- Information on funding and financing (e.g. rates of return, dividend policy, state guarantees, financial support, conditions to access to finance, financing sources, etc.);
- Information on major procurements or supply contracts (especially with the State); and,
- Information on the legal form of the company (especially if incorporated under statutory legislation) which might have a bearing on the applicable corporate norms (e.g. bankruptcy rules, transparency and disclosure practice, etc.).

Figure 2.4. Transparency and disclosure practices of SOE relevant to competitive neutrality



Note: In the case of not applicable, countries have reported on implementation rather than reporting requirements.

Source: Author, based on country self-reporting.



# 3 Transparency and disclosure by the state owner

## Prevalence, coverage and frequency of aggregate reporting on the entire SOE sector

Aggregate reports should include information on the implementation of the state ownership policy, the composition and qualifications of SOE boards of directors and detailed reporting on individual SOEs. Where reporting on the state-ownership policy, some jurisdictions also include information on the rationales for state ownership and the objectives of individual enterprises, in keeping with the standards of the SOE Guidelines. The frequency of the aggregate report as well as its availability to the general public may vary across jurisdictions. However, according to the OECD SOE Guidelines the aggregate report should be made available to the public and published on an annual basis.

Country practices can be roughly categorised as follows:

- Aggregate reporting on the entire SOE sector
- Online inventory
- Aggregate reporting on a portfolio of SOEs
- *Ad hoc* reports on SOEs or regular reporting to the parliament on the performance of SOEs and,
- No aggregate reporting.

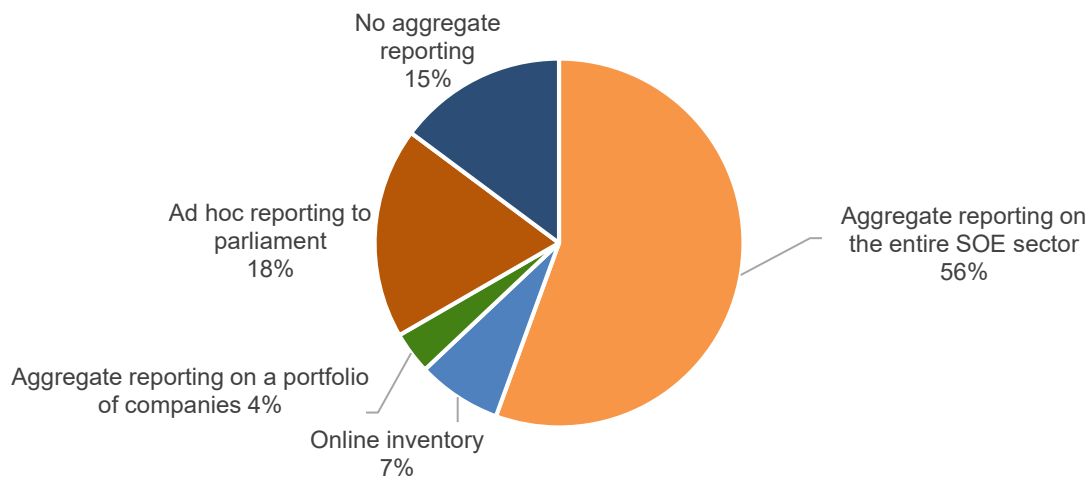
As demonstrated in Figure 3.1, national practices tend to vary, and as also noted in OECD, 2016 many countries with centralised (or coordinated) state ownership tend to produce more systematic and/or complete aggregate reporting. Among the sample, there are only a handful of countries that use aggregate reporting to report back on the performance of the ownership entity itself in managing the state's portfolio of assets (see also below). Moreover, in a number of countries aggregate reporting is mainly focused on financial indicators, with an overview of the inventory of companies, rather than providing an assessment of the achievement of state-ownership objectives and on the evolution of the portfolio overall as a result of these objectives. Note that in most cases these type of aggregate reporting covers the portfolio held at the central level of government.

Insofar as information about individual SOEs is readily available elsewhere including such information in the aggregate report is not considered an essential practice. Still, it can be of interest to the public, particularly for SOEs that are economically important and also in terms of ensuring inter-company comparability of the disclosed information. In addition, in a decentralised or dual ownership structure, where ownership information would otherwise be available in disparate forms, having a centralised one-stop-shop for information on the full portfolio is one step closer towards some form of aggregate reporting.

The majority of countries that conduct aggregate include some degree of company-specific information, ranging from reporting on key recent corporate events, to the inclusion of detailed company pages – in

some cases only for the largest SOEs – that present the financial accounts, number of employees and information on the board composition and remuneration. Some countries provide much more extensive details on individual SOEs. For example in **Norway**, company pages include reporting on corporate social responsibility efforts, as well as the percentage of women both among board members and among the board members appointed by the shareholders (shareholder elected board members). **Lithuania** includes in its company-specific pages a list of all board members and an identification of those considered independent. **Sweden** includes reporting on financial and non-financial targets on an individual basis and includes information on whether individual SOEs reach their targets. (See also Table 3.1)

Figure 3.1. Aggregate reporting - Trends



Source: Author based on country self-reporting.

Note: The trends of aggregate reporting practices identified by this chart are in line with those indicated in the forthcoming OECD reports entitled “Thematic review on the organisation of state ownership functions” and “Monitoring Report on the Implementation of the SOE Guidelines”. It should be noted that the sample of countries used for this report is slightly different from the other two reports.

### *Aggregate reporting on the entire SOE sector*

An overview of national practices in this category are provided as follows:

- Costa Rica:** The state ownership entity, Advisory Unit on State Ownership published the country’s first annual aggregate report on SOEs financial and non-financial information in October, 2019. The report covers recent evolutions in the State’s portfolio; an overview of the state-ownership policy; a review of SOE portfolio results; information on individual SOE financial results, and non-financial performance with a focus on transparency and disclosure. The report is presented to the Council of Government, and is available to the public in its original language (Spanish) on the dedicated website of the Advisory Unit, as well as on the official websites of the Presidency, the Ministry of Finance, and the Ministry of Planning and Economic Policy. Additional non-financial performance indicators, as well as quantification of the cost of public policy objectives carried out by SOEs are expected to be introduced in future iterations of the report.
- Estonia:** The Ministry of Finance produces an annual report on the full portfolio of SOEs under state ownership based on a compilation of information gathered from the annual reports of SOEs (on both financial and non-financial indicators) as well as the annual reports of the



decentralised shareholding ministries.<sup>18</sup> The Annual report covers the main changes in the SOE portfolio; provides an aggregated overview and analysis of financial results, and operational performance of SOEs. The report assesses continued rationales for state ownership and evaluates the portfolio's overall performance either regard to return on equity and capital structure. The report, on occasion, may include an overview of the ownership policy implementation and/or proposed changes to it. The report is presented first to Government, then to Parliament, and finally with the National Audit Office. It is available online in Estonian.

- **Finland:** The Ownership Steering Department at the Prime Minister's Office publishes an annual aggregate report which covers all SOEs, except for those that are partially owned and under the oversight of a separate holding company. The Aggregate report includes information about the evolution of the state portfolio, the total (aggregated) valuation, company specific financial and non-information (e.g. total employment, board composition and major events). For each company the state reports on its ownership objectives and the strategic interest (when applicable) continued public ownership. Additionally, the state reports on topical issues, for example covering recent legislative changes, portfolio developments, ownership steering developments, executive remuneration practices, board appointments and responsible business practices. The report is published in Finnish, Swedish and English online.
- **France:** The centralised ownership entity (APE) produces two annual reports per year. The first relates to the performance and results of the APE itself in managing its portfolio of state assets; the second annual report relates to the SOE portfolio performance (81 SOEs under APE's oversight), with a comprehensive financial report for the entire SOE sector (covering SOEs that are operating as corporatized state agencies). The annual report provides an overview of its policies, main events and key financial indicator (revenue, EBITDA, dividends, etc.). It also details individual SOE performance, and provides an overview of board composition, and remuneration across its entire portfolio. The reports are presented to Parliament and made public on an annual basis, in both French and English.
- **Germany:** The Ministry of Finance collects information on the decentralised portfolio of companies held by different federal ministries. The report covers all holdings held at the central level of government where shares are owned directly by the State; indirect holdings are reported only if the state holds more than 25% of shares. The report covers the state-ownership policy and implementation of public policy objectives (e.g. implementation of gender quotas on boards of directors or sustainability goals) and lists. Company specific information covers: ownership structure; important company holdings; nature and purpose of the business, financial performance based on financial statements; total employment; and management and board composition and remuneration. Small registered cooperatives owned by the State are further listed in the report, which is made available online in German. In additional, information on large SOEs are available on the Ministry's website separately.
- **Hungary:** The Ministry that is not responsible for oversight of SOEs prepares an annual report based on reporting it receives from the decentralised entities that exercise ownership rights. The report contains information on changes in ownership; financial performance and value of the SOE sector; employment data; board composition; reporting on individual SOEs; and the use of internal and external audit. The report is shared with Parliament and upon approval it is made public on the Ministry's website in Hungarian.
- **Israel:** The centralised ownership agency (GCA) produces an annual report consolidating information for the entire portfolio of wholly owned companies (and in some cases partially

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<sup>18</sup> Decentralised ownership entities compile similar reports covering their SOEs.

owned companies) on their overall financial performance and value; employment and includes reporting on the performance of individual SOEs. The report does not provide an overview of the implementation of the state-ownership policy nor information on board composition, nomination or remuneration practices. The report is made available online in Hebrew, along with financial statements for all companies.

- **Japan:** The Ministry of Finance produces one annual report on the status of all government shareholdings, the state's ownership policy, sell-off procedures and the value of the portfolio. The report is publicly available.
- **Latvia:** The centralised coordinating body (CSCC) produces an annual aggregate report on all SOEs that are fully state-owned (with a few exceptions). The reporting includes information on the state -owner's activities in the governance of SOEs and in its exercise of shareholder rights (board nomination practices). The report provides a sectorial overview of the portfolio of companies, as well as overall performance of SOE, and includes key financial indicators (assets, turnover, equity, dividends, funding and financing, return on assets/equity, etc.). The report also covers the performance of individual SOEs, and includes key information such as board composition, and key financial indicators for each company. The report is presented to Parliament and made public on an annual basis, including in English. In addition, the state has a database accessible to the public, which provides information and key financial and non-financial indicators for individual SOEs.
- **Lithuania:** The Governance Coordination Centre (GCC) produces an annual aggregate report on SOEs' financial and non-financial performance. The report also covers broader governance-related aspects as well. The report covers: recent policy developments with regard to SOEs; overview of the state-ownership policy; executive remuneration practices; special obligations performed by SOEs; grants provided to SOEs; overview of SOE portfolio results; sectorial reviews; information on individual SOEs; and financial results of SOEs not included in the overall portfolio. The report is presented to the Cabinet of Ministers and is made available online in Lithuanian and English. A dedicated website is also available with additional information on SOEs, including their ranking according to the "SOE Good Corporate Governance Index" and other information.
- **Netherlands:** The state publishes an annual report on the state ownership policy and financial results of SOEs covering the full portfolio of companies with state participation. It covers: implementation of the ownership policy; financial performance and value of the sector; employment; fulfilment of policy objectives; board composition and remuneration; and reporting on individual SOEs. It is presented to Parliament and published online in Dutch.
- **Norway:** The centralised ownership entity (Ministry of Trade, Industry and Fisheries) proceeds an annual aggregate report on all SOEs. The annual report includes information on all relevant categories (as listed above), including information on the implementation of the ownership policy and performance of each of the companies. The report also includes key issues relevant from a state-ownership perspective, such as board and executive remuneration, board nominations (especially for shareholder elected board members). The report is publicly available, including in English. Separately, the state has a website on state-ownership including ownership rationales, and relevant information on individual companies.
- **Sweden:** The Government Offices produces an annual aggregate report for the entire SOE sector, including activities of individual enterprises, their financial performance and value, as well as achievement of company goals and targets. The report also includes information on all relevant criteria as noted above, including the implementation of state ownership policy and board practices. In addition, the report provide information about material risks at the portfolio level and a snapshot of relevant financial information at the company level. The report also

details how the government as owner of SOEs managed the portfolio over the past year. The report is part of reporting requirements to Parliament and is made available online in Swedish and English.

- **Switzerland:** The Federal Council annually produces an aggregate report on all SOEs based on their fulfilment of strategic objectives and goals set by the Government. The report includes information on the implementation of the state-ownership policy, financial performance and value of SOEs, the implementation of public policy objectives, and board composition (remuneration is only partly covered) and reporting on individual SOEs attainment of strategic objectives (e.g. Public policy goals and financial targets, risk evaluation). The report is available online in German and French. Additionally, the Federal Finance Administration has a website with information on individual SOEs, board composition, information on corporate governance practices of the state-owned entities.
- **Turkey:** The Treasury and Ministry of Finance publish a State Enterprise Report annually which covers the entire portfolio of companies with state participation. The report covers financial performance and the value of the SOE sector; total employment in SOEs and implementation of public policy objectives; SOE board composition; and reporting on individual SOEs. The report is presented to Parliament and is made available online in Turkish.

### *Online inventory functionally equivalent to an aggregate report*

An overview of national practices in this category are provided as follows:

- **Brazil:** The coordination entity (SEST) has an interactive tool (“Panorama”) that presents general data on SOEs, including the size of the sector and sectorial distribution, employment data, board composition, and economic and financial indicators. The tool does not provide an overview of the fulfilment of the state-ownership policy.
- **Korea:** The Ministry of Finance has established a system (known by its acronym as the ALIO; see [www.alio.go.kr](http://www.alio.go.kr)) which serves as an online repository of both financial and non-financial information of all public institutions in Korea, including SOEs. SOEs (and other public institutions) are mandated to disclose operational data according to 34 standardized categories of financial and non-financial information (initially only 20 items had to be disclosed). Such aggregate disclosure is supported by Official Information Disclosure Act, which became effective in January 1998, requiring that information on the operation of the government agencies, SOEs, and public institutions be disclosed.

### *Aggregate reporting on a portfolio of SOEs*

An overview of national practices in this category are provided as follows:

- **Chile:** The centralised ownership entity (SEP) produces an annual aggregate report for all SOEs under its portfolio. A separate annual report is produced by the Ministry of Finance on financial indicators for the SOE portfolio. The aggregate reports do not cover broader reporting by the ownership entity on the state’s ownership policy. Both reports are submitted to Parliament and available to the general public.

### *Ad hoc reports on SOEs or regular reporting to the parliament on the performance of SOEs*

An overview of national practices in this category are provided as follows:

- **Argentina:** A consolidated state budget report is prepared by the Ministry of Treasury and submitted to the Legislature on an annual basis, as well as in the *Carta de Jefatura de Gabinete*

which addresses the financial and staff evolution of each SOE, corporate governance policies of SOEs among other areas. Audit reports from the state audit institutions are also produced on an *ad hoc* basis.

- **Greece:** A monthly report is published by the Ministry of Finance on the performance of large, economically important SOEs (e.g. with turnover over 10 million EUR).
- **Italy:** The State Court of Auditors provides an annual reports on the management of SOEs to be submitted to the Parliament and, sometimes these may be further complemented by updated studies from the Ministry of Economy and Finance (in its role as shareholder) for economically important SOEs. The Department of Treasury hosts a website where a list of the current holding share for its direct participation in SOEs is disclosed, as well as links to each company's corporate governance page.
- **Poland:** The General Counsel develops a report on the status of state property, which focuses on the value of state property, share in state capital equity, net results and a list of entities performing direct supervision in SOEs. The Ministry of Entrepreneurship and Technology, which is the largest shareholding entity, produces an annual report of the portfolio of SOEs under its oversight. This report presents financial results achievement by SOEs, including analysing their achievement of corporate objectives. The former report is presented to Parliament. Both reports are available online. The largest shareholding ministry (Ministry of Entrepreneurship and Technology) also prepares a report on the financial results of SOEs under its supervision yearly.
- **Slovak Republic:** The Ministry of Finance produces a General Annual Report on whole of government accounts, which includes the consolidated financial statements of SOEs, and details on economically important SOEs, including an analysis of annual changes in profits and shareholder equity. This reporting also includes a list of all centrally owned SOEs, the percent of state, ownership as well as the name of the sectorial ministry exercising ownership rights, detailing the value of equity and net profits/losses over the past three years. The report is shared with Parliament and made available online.

### *No aggregate reporting*

An overview of national practices in this category are provided as follows:

- **Belgium:** There is no established practice of aggregate reporting.
- **Czech Republic:** There is no annual aggregate report, although sector Ministries and the Ministry of Finance produce a report on the activities and performance of SOEs for individual companies in a disaggregated form.
- **Iceland:** The Ministry of Finance and Economic Affairs publishes government accounts of SOEs including information on the finances of central government entities and key figures from the annual financial statements of central government entities. The government account is available online by the Financial Management Authority of Iceland. The Ministry of Finance and Economic Affairs is working towards developing an on-line database of SOEs with state participation.
- **United Kingdom:** The UK Government Investments does not produce an aggregate report on the activities and performance of the SOEs in its portfolio. However, Government departments (as owners of SOEs) are required to publish an Accounting Officer Systems Statement setting out all of the accountability relationships and processes within a department. The UK's Whole of Government Accounts includes segmental reporting on the income, expenditure, assets and liabilities of public corporations, however, not all SOEs are classified as public corporations in the Whole of Government Accounts.

### Coverage of aggregate reporting

As summarised in Figure 3.1 coverage of aggregate reporting differs across jurisdictions, but in most cases a typical aggregate report might cover full or part disclosure on the following areas related to the size and performance of the sector covering:

- SOE portfolio size and sectoral distribution;
- Portfolio performance and performance of individual companies (as relevant);
- Aggregate financial performance of the entire SOE sector (or the most economically important SOEs)
- Performance (non-financial); and,
- Key financial indicators in terms of the performance of the portfolio from the state-owner's perspective this can include: turnover, profit, cash flow from operating activities; gross investment; and importantly return on equity, equity/asset ratios and dividends earned.

Table 3.1. Aggregate reporting practices by country

	Multiple languages	Implementation of state ownership policy	Aggregate Financial performance	Key financial indicators	Key non-financial indicators	Portfolio-Size & sectorial distribution	Board composition	Reporting on individual SOE
Argentina			○			○		
Brazil			●	○		●	●	●
Chile			●	●	●	●		
Costa Rica		●	●	●	○	●	○	●
Estonia		●	○	●	○	●	●	
Finland	●	●	●	●	●	●	●	
France	●	●	●	●	●	●	●	●
Germany		○	●	○		●	●	
Hungary			●				●	●
Iceland						●		●
Israel			●			●		●
Italy						○		
Japan		●	●			●		
Korea				○	○		●	●
Latvia	●	●	●	●	○	●	●	●
Lithuania	●	●	●	●	●	●	●	●
Netherlands		●	●	●	●	●	●	●
Norway	●	●	●	●	●	○	●	●
Poland		●	○	○				
Slovak Republic		○	●		○	○	●	
Sweden	●	●	●	●	●	●	●	●
Switzerland	●	●	○	●	●	●	●	●
Turkey		●	●	○	●	●	●	●

Note: Clear circle represents partial disclosure.

Source: Author compilation based on self-reported information.

### Key financial indicators

Among reporting jurisdictions, a little over **one-third of countries** provide the full range of information on key financial indicators on the aggregate performance of the state-owned sector and with regard to

individual companies. This information includes turnover, profit, cash flow (with some exemptions) from operating activities; gross investment, return-on-equity, equity/asset ratio and dividends. An additional **18 per cent of respondents** only partially cover this area in their annual aggregate reporting. (Table 3.2)

On key financial indicators two areas are of particular importance to highlight in the context of competitive neutrality include transparency around the rate-of-return and state dividend policy. Regarding the rate-of-return, this is a marker of how efficiently enterprises use the capital resource at their disposal. This is why some countries establish rate-of-return requirements on commercial state-owned enterprises consistent with private sector actors (Guideline III.F.3). These can range from broad governmental guidelines applicable to all SOEs, to yearly targets elaborated for individual companies jointly by boards and the government. It should be noted that some countries compensate SOEs for having to assume public policy objectives (rather than through a direct subsidy) by negotiating a lower rate-of-return, this can have distortionary effects; and renders comparability with other market participants difficult. Being transparent about what these guidelines might be can send an important signal to other market participants about the competitive conditions of an SOE.

Another financial indicator of particular importance for transparency purposes is the state's dividend policy. In some countries, no dividend guidelines exist but the board sets the target for the company. For many others, broad guidelines set by the state are applicable to the entire SOE sector concerning factors that will account for setting dividend levels; others require a pre-defined percentage of net income. Finally, in some countries annual dividend levels are negotiated annually between SOE boards and shareholders (often based on range defined by shareholders and later set by the board). A clear policy on dividends can help to ensure market consistency. An artificially low dividend rate can give SOEs an undue financial advantage compared with other market participants (refer to Annotations to III.D). For this reason, transparency and disclosure around the state's broad policies on dividends can set an important signal to other market participants on a company's commercial orientations.

### ***Ownership policy and ownership function***

It is considered good practice to include in aggregate reports information on the state's ownership policy and its implementation. This might typically include: (1) general statement on the overall state ownership objectives and information on how the state has implemented this policy so far; (2) the performance of the state ownership entity in carrying out its requisite duties and functions – here it might report on the annual budget of the state ownership entity and staffing (especially if it is operating at arm's length from government); (3) how it has dealt with various stakeholders and affected communities – which might be most relevant if the state is actively privatising enterprises; and (4) board practices – since often times the ownership entity is involved in board nomination and appointment; and may also have specific guidelines on board and executive remuneration.

Twelve out of 27 countries report some level of disclosure on implementation of the state ownership policy. Whereas around 15 countries provide information in their aggregate reporting on SOE board practices and composition (see Figure 3.1). The information ranges from aggregate figures on gender diversity in boards to the remuneration of individual board members; as well as information on nomination and appointment practices relevant to determine board autonomy and independence.<sup>19</sup> For example, **Netherlands, Norway** and **Sweden** report on the overall proportion of women in the boards of SOEs. **France, Netherlands,**

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<sup>19</sup> If the State retains effective control of a partly privatisation SOE, regardless of ownership stakes, the exercise of these functions should be reported on. For example, if it can make specific decisions in terms of board nominations (i.e. a select number of seats reserved for state-appointed representative), this might be an additional area of disclosure.

**Norway** and **Sweden** include company-specific information on the remuneration of the board chair and members. In **Chile**, the System of Enterprises (SEP) similarly includes information on board composition in the largest SOEs (the report only applies to the portfolio of enterprises under the purview of the SEP).

### ***Transparency and disclosure relevant to competitive neutrality***

This section provides an overview of additional areas of transparency and disclosure that may be included in aggregate reporting by the state-owner, or in other relevant reporting related to competitive neutrality. This reporting may include:

- Costs related to public policy objectives and non-commercial assistance,
- Applicability of rules on state aid or competitive neutrality and,
- Information related to immunities and privileges enjoyed by SOEs as a result of their public ownership (e.g. explicit guarantees, applicability of corporate norms including bankruptcy rules, etc.).

It is considered good practice produce distinct reporting on the costs related to SOEs' public policy objectives, and (where applicable) the related funding provided from the state budget. In over half of the reporting jurisdictions, there is either part or full disclosure of non-commercial assistance, and in some cases, this information is made publicly available. **Latvia**, stands out in this regard as relevant information is made available in aggregate reporting, with and more complete information separately issued by individual ownership entities reporting on the amounts of the state funding planned and received by individual SOEs. **Sweden** also discloses any non-commercial assistance or other exemptions/immunities applicable to the SOE sector in its Annual Aggregate Report. The Ownership Policy of the government is annexed to the annual report which provides an overview of the legal framework for state aid. As noted above, information disclosure should be complemented by disclosure by individual SOEs in their financial and non-financial reporting.

The sources of disclosure for rules bearing on competitive neutrality or state aid regimes, as well as non-commercial assistance can be found as follows:

- Annual aggregate report or ownership policy of ownership entity (**Latvia, Sweden**);<sup>20</sup>
- Constitutional provisions (**Brazil**);
- Competition and other state aid laws in force (**EU/EEA member states, Chile, Costa Rica, Iceland, Lithuania, Norway, Switzerland**);
- Annual reports of individual SOEs (**Turkey**);
- Websites of individual SOEs or their ownership entities (**Estonia**);
- Specialised database (**Switzerland**).

With regard to specific exemptions, non-conforming measures or immunities from rules and regulations (e.g. competition law or bankruptcy law) – if and where applicable - the information would usually be available either in disaggregated form for each company or in an aggregate form as follows:

- Statutory laws or articles of association/corporate by laws of a SOE (**Brazil, Costa Rica, Hungary**);
- SOE or sector specific laws (**Iceland**);
- Disclosure by centralised or coordinated ownership entity (**Lithuania**)

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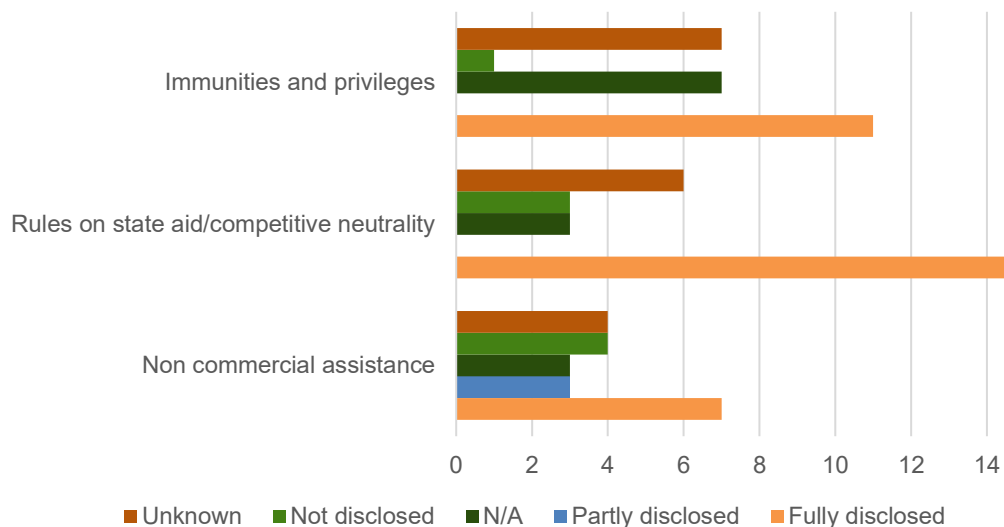
<sup>20</sup> In the case of Latvia, this does not apply to individual cases of state aid that have been granted and which are subject to disclosure at the discretion of the Ministry of Finance.

- Annual reports of individual SOEs (**Turkey**)
- Competition and other state aid laws in force (**Costa Rica, Estonia, Finland**)
- Websites of individual SOEs or their ownership entities (**Estonia, Israel**)

On the applicability of rules on state aid or competitive neutrality, many jurisdictions and in particular, those that are operating in the **European Union and European Economic Area** are subject to the European Commission's rules on State Aids. In many cases, state aid considerations would figure prominently in reporting of non-commercial assistance to SOEs, and the applicability of existing state aid rules or other similar competitive neutrality regimes would be subject to disclosure or made available upon request. Among non-EU/EEA countries, those that report public disclosure in this area include **Brazil, Chile, Costa Rica, and Turkey**.

Where government businesses are incorporated according to ordinary company law, it may be inferred that SOE are subject to the same regulatory treatment or at least similar or equal to private businesses. However, some statutory corporations and in some exceptional circumstances, incorporated SOEs may be subject to specific immunities and privileges (explicit state guarantees, bankruptcy rules, etc.). In most of the reporting jurisdictions, relevant information in this category is fully disclosed and publicly available (**Brazil, Costa Rica, Czech Republic, Iceland, Lithuania, France, Sweden, Switzerland, Turkey, United Kingdom**) or considered not applicable due to the absence of any such practices (**Chile, Greece, Norway, Latvia, Slovak Republic, Estonia, Israel**).

Figure 3.2. Disclosure of national practices in competitive neutrality



Source: Author compilation based on country self-reporting.



# 4 Assessment and conclusions: how well are the Guidelines implemented?

Since the SOE Guidelines were adopted over a decade ago, many countries around the world have instituted reforms leading to increased transparency in the state-owned enterprise sector, both at the level of individual SOEs and at the level of the state. Heightened disclosure practices have often occurred in tandem with other trends, including the professionalization of the state-ownership function, SOEs' corporatisation and the listing of some SOEs on stock exchanges. In most cases, such efforts have brought practices closer to the aspirational standards set by the SOE Guidelines.

## Disclosure at company level

Based on 27 economies considered in the context of this assessment, virtually all jurisdictions report applying the same disclosure requirements for large and commercially-operating SOEs as for private companies. These requirements are established by company law or are standards applicable to publicly traded companies (even in cases where SOEs are not publicly traded). This suggests that consistent with the Guidelines, SOEs are subject to the same reporting requirements as companies operating in like circumstances and often such requirements are based on requirements established for listed companies. In 12 out of 27 reporting jurisdictions, additional disclosure requirements are established for SOEs.

Despite good practices in a number of OECD and non-OECD economies, the quality, robustness and completeness of disclosure by individual SOEs is not easily ascertained from country responses. Apart from a select number of cases, the vast majority reporting jurisdictions do not report specific practices that systematically assess or monitor the completeness or quality of financial and non-financial disclosure – even if the responsibility for monitoring the accuracy of information provided by SOEs lies with the ownership ministries, legislatures and ultimately supreme audit institutions. As with private sector companies, ownership entities place responsibility on boards of directors to ensure timely and quality disclosure by SOEs.

As the quality of financial and non-financial reporting varies among jurisdictions and individual enterprises, the control environment and applicable accounting standards remains a useful guidepost to place reliability and credibility in SOEs reporting practices. In almost all jurisdictions, there is a mix of use between internationally recognised standards (IFRS) and the national accounting standard (which might be IFRS/GAAP consistent). The application of IFRS is mostly obligatory for listed companies; and within large SOEs and financial institutions IFRS is almost always applied. In some countries, however, IFRS is optional for large non-financial SOEs. However, even where only national auditing standards are required, it should be kept in mind that most OECD countries are members of the EU or EEA, where national accounting standards need to be in accordance with IFRS according to the EU *acquis*.

Similarly, the use of internal audit and controls which, according to good practice should have a direct reporting line to the supervisory board, is pervasive in SOEs that are listed. In 12 jurisdictions, internal audit functions are mandatory in all SOEs, and in another 9 jurisdictions it is mandatory only for large SOEs suggesting that this is an areas where further improvements may be necessitated, with due consideration for size and operations of individual SOEs.

In 21 out of 27 jurisdictions, respondents reported that all SOEs are subject to independent external audit, with most countries setting forth requirements for the rotation of the external auditor, which is consistent with the SOE Guidelines and EU standards (when and EU or EEA member). However, there are some exceptional cases where SOEs are still subject to state audit procedures in lieu of external independent audit. In almost two-thirds of cases, state audit occurs on an *ad hoc* basis and serves to evaluate the efficiency of the use of public assets and finances and observance of legal regulations. In 10 jurisdictions, state audit is mandatory on a yearly basis on top of existing internal and independent external controls, demonstrating that in some jurisdictions state accountability measures are considered to be an additional and necessary layer of control.

As for the general coverage of financial and non-financial disclosure practices, the areas which, on average, tend to get the least full or partial coverage by reporting jurisdictions are: in the areas of risk disclosure and mitigation measures; employee and stakeholder relations; and responsible business conduct. Interestingly, these are topics that are gaining increasing attention and importance in other fora to draw from to explore where further disclosure efforts can be made.

Based on the analysis, other areas of non-financial disclosure that could be of relevance for future work bearing on SOEs as global competitors includes: (1) disclosure of control structures where the state may retain golden shares or special shareholder controlling rights; (2) board nomination practices, especially where the state retains the power to designate individual board members; (3) more consistent and systematic reporting of non-commercial or financial assistance received from the state that go beyond what international accounting standards may require as part of financial disclosure (e.g. state guarantees, capital/equity injections, grants and subsidies.); and (4) other relevant information to assess competitive neutrality concerns (e.g. procurement contracts/supply, funding and financing modalities, and regulatory exemptions).

## Aggregate reporting

When it comes to aggregate reporting by the state-ownership entity there has been significant alignment with the SOE Guidelines, with 70% of jurisdictions producing some form of aggregate report either covering the full portfolio of companies (56%), in online format (7%), or on a sub-set of the state portfolio (7%). However, there is a lack of convergence and harmonisation across jurisdictions as to the information that is made available by the ownership entity in the form of an aggregate report. Information on portfolio size and sectorial distribution, aggregate financial performance and board composition are the predominate information found in aggregate reporting. Increasingly, a larger number of those reports also provide information on individual SOEs.

Going forward, more focus can be placed on enhancing coverage of aggregate reporting on implementation of state-ownership policy and key financial and non-financial indicators (here beyond performance it is less prevalent to see the ownership entity report on return on equity and equity/assets ratio, dividend policy, gross investment, etc.). Moreover, while most jurisdictions report that information relative to competitive neutrality practices are available in the public domain, only two jurisdictions actually make this information available in the annual aggregate report or state-ownership policy, suggesting that more can be done to draw attention to applicable rules and policies towards SOEs, and especially in the area of disclosure of non-commercial assistance.

In conclusion, while countries have made important strides to improve transparency and disclosure practices by individual SOEs and the state ownership, this paper has identified some areas where additional disclosure would be merited. This would serve to align country practices further with the SOE Guidelines while also providing more accessible and enhanced information relevant when SOEs are active as global competitors.

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