

FBNET - COMMENTS

Overall, we believe that the document contains essential information and is well-structured. To improve the guidelines further, we would like to raise some constructive comments and suggestions as follows:

SECTION I – Rationale for state ownership

Part C: Consider changing: *“The ownership policy should be subject to appropriate procedures of accountability and disclosed to the general public...”* **to** *“The ownership policy should be subject to appropriate **accountability procedures** and disclosed to the general public to **promote transparency.**”*

Part D: Consider changing *“The state should define the rationales for owning individual SOEs...”* **to** *“The state should **evaluate** the rationales **and objectives** for owning individual SOEs...”*. This is because the requirement for “define” was already mentioned in part B.

SECTION II – The state’s role as an owner

Part C: Consider changing: *“...with SOEs highest governing body...”* **to** *“... with **the highest governing body of SOEs...**”*

Part F, point 3: Consider including the sustainable goals as one of responsibilities by changing *“... including financial targets, capital structure objectives and risk tolerance levels...”* **to** *“... including financial targets, capital structure objectives, **sustainable goals**, and risk tolerance levels...”*

SECTION III – State-owned enterprises in the marketplace

This section highlights important points to enhance the roles of the SOEs in the economy and reduce their disadvantages and costs due to mismanagement. This section could add a few more points

reflecting the roles and responsibilities of SOEs:

- Part A could be rewritten:

“There should be a clear separation between the state’s ownership function and other state functions that may influence the conditions and activities of SOEs, particularly with regard to market regulation and policy making.”

- Part B could be rewritten:

“SOEs’ legal form should allow creditors to press their claims and to initiate insolvency procedures that are no different to the privately owned competitors.”

- Part C (the first paragraph) could be rewritten:

“Where SOEs engage in economic activities and fulfill public policy objectives, the latter should be transparently, specifically identified, and publicly notified, allowing for attribution to main activity areas.”

- Part D. In some scenarios, due to the characteristics of SOEs, the state could consider more laws and regulations on governance, transparency, and accountability to supervise the SOE's activities.

- While part E refers to debt and equity finance, point E3 does not seem to be relevant, or this sentence needs to be rewritten to reflect capital structure (debt and equity finance)

- Part F could be rewritten:

“When SOEs engage in public procurement, whether as bidder or procurer, the procedures involved should be open, competitive, and non-discriminatory. Standards of integrity and transparency should be safeguarded to avoid undue advantages or disadvantages to SOEs and its potential suppliers.”

- Consider adding the following point to part G: *“Due to recent events including climate change, inflation, and food crisis, the state should consider a new model of managing and controlling SOEs in some “special” sectors such as*

energy to enhance competition and lessen monopoly. This could improve these sectors' functions for quickly and smoothly dealing with unexpected events in the future".

SECTION IV – Equitable treatment of shareholders and other investors

- There are some good guidelines on the equitable treatment of shareholders and other investors; however, it is very challenging to implement and apply in practice, for example, the degree of transparency and disclosure. Also, we think that the minority shareholders' rights and power need to be better discussed and emphasized.
- The following guideline seems to be unclear: "Transactions between the state and SOEs, and between SOEs, should take place on market consistent terms.". For example, what are these transactions? Who is the state and what are "market consistent terms"?
- The percentage of equity hold by states is missing from the guidelines of this section. This affects the power of states and transparency of the SOEs.

SECTION V – Disclosure, transparency and accountability

Section A

- The guidelines mentioned that "SOEs should report all material information on the enterprise in line with high-quality internationally recognised standards of corporate disclosure, including areas of significant concern for the state as an owner and the general public". The guidelines may consider adding "**national standards**" as many countries have some specific requirements for SOE to disclose relevant information, especially, firm operating in highly environmental impact sectors.
- It should have a clear statement of the chair of the board of directors to

evaluate the fulfilment of their responsibilities.

- More disclosure of the composition of the board of directors should be considered, such as the diversity of gender, educational background, professional experience, age, and ethnicity. The information about holding other roles as directors at other organizations.
- More disclosure of the political connections (role, function, and linkage with political parties), spending on political activities
- More details on disclosure of sustainability should be added, such as disclosing information related to climate change and environmental damage and prevention.
- More disclosure of different board committees, such as audit committee, remuneration committee, risk management committee (if any)

Section B

The guidelines mentioned that "An annual external audit should be conducted by an independent, competent and qualified auditor in accordance with internationally recognised auditing, ethical and independence standards in order to provide reasonable assurance to the board and shareholders on whether the SOEs' financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework". Besides providing reasonable assurance to the board and shareholders, the guidelines should consider the assurance to "**other stakeholders**".

Additional comments:

The guidelines should consider requiring SOEs to disclose more information related to climate change, greenhouse gas emissions, social and environmental damage (impacts and their solutions).

SECTION VI – The composition and responsibilities of the boards of state-owned enterprises

- It is not clear who will be the stakeholders in the case of SOEs that the boards need to be accountable for.
- We wonder if we should emphasize on the differences between industries and sectors?
- In terms of independence and efficiency of the board, the multiple directorships have been found academically to be influential in the board decision-making, policies, performance and risks. Therefore, we think that this important aspect should be included in the report.
- The board has two major functions: *advising* and *monitoring*. We think that the guidance should make this clearer and separated.
- The guidance in this section is too general as we could find the same information in many corporate governance codes worldwide. It lacks specificity for SOEs as it can be applied for any types of businesses but not necessarily SOEs.
- For SOEs, the “political connections” and “political control” are very popular, especially in China and Vietnam. We therefore think that these points need to be covered clearly and more specifically in the guidance. There are some good researches on this.
- The role of SOEs’ boards related to sustainability is not well-clarified and guided. Climate governance mechanisms can be an additional point to distinguish the guidance for SOEs vs non-SOEs.
- We just wonder how to ensure the independence of the SOEs’ boards if they receive the remunerations? Who will pay for them? Perhaps more specific requirements for “independence” should be discussed in the guidance. Practice shows that the independence levels are normally difficult to measure so if we can propose the acceptable independence levels and requirements, that would enhance the “independence” terms in the guidance.

- Many other attributes, characteristics and functions of the boards are currently missing in the guidance.

SECTION VII – State-owned enterprises and sustainability

- The term "Sustainability" has many definitions. A description of the scope of sustainability in this report would be helpful for practitioners.
- The roles of public-private partnership in sustainability could be added to the guidelines, since achieving sustainability goals often require the synergy of many sectors.
- Setting concrete and ambitious sustainability expectations should be accompanied with a detailed action plan and clear timelines. These expectations should be in harmony with economic goals.
- Some comments on how to resolve the potential conflicts of interests related to sustainability would be helpful.
- The chapter raises very important points, and we think some clarifications could be useful for readers. For example, a summary of the current international standards on sustainability reporting, assurance, and verification could be helpful for practitioners. Moreover, terms such as "concrete", "ambitious", "high expectations" are open for interpretation, so two governments who follow the same guidelines may have different sustainability performance, depending on their interpretation of these terms.

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