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Working Party
Corporate Governance Committee
OECD

11 September 2023

By email: CorporateGovernance&CorporateFinance@oecd.org

Dear Working Party,

Submission in response to Revision of the Guidelines on Corporate Governance of SOEs I OECD

The Business Council for Sustainable Development Australia (**BCSD Australia**) welcomes the opportunity to make this submission to the Working Party on State Ownership and Privatisation Practices of the OECD.

The submission consists of the following sections:

Yours faithfully,

Yours faithfully,

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Executive Summary

The Business Council for Sustainable Development Australia (BCSD Australia) makes this submission in response to the Revision of the Guidelines on Corporate Governance of State-Owned Enterprises (SOEs) by the Organisation for Economic Co-operation and Development (OECD).

The submission:

- aims to provide recommendations for the development of a comprehensive and actionable roadmap for SOEs to follow, ensuring that they not only meet but exceed expectations in sustainability and responsible business conduct.
- highlights the need for SOEs to adopt sustainable and efficient practices in their operations, including the establishment of an internal audit function, the development of risk management systems, and the implementation of specialized committees to support the board.
- in acknowledging that the guidelines call for the ownership entity to develop consistent reporting on SOEs and publish an annual aggregate report, suggests that more detailed recommendations are needed, including guidance on the use of digital platforms for reporting, the role of data analytics, and the provision of regular updates on the performance and progress of SOEs.
- emphasizes the importance of the state as owner setting concrete and ambitious, sustainability-related expectations for SOEs, including on disclosure and transparency, the role of the board, and stakeholder engagement. The annotations provided in the guidelines offer further insights, highlighting the need for the corporate governance framework to provide incentives for SOEs to make decisions and manage their risks in a way that contributes to sustainability and resilience and ensures long-term value creation.
- addresses the need for SOEs to be aware of and manage their exposure to climate physical and transition risks, and to play a crucial role in fostering sustainable development and facilitating a just transition, including by providing or financing low-carbon alternatives.
- suggests that the implementation of these recommendations could have a significant impact on the transition to a sustainable Australia, contributing to the achievement of the United Nations Sustainable Development Goals.
- argues the need for SOEs to adopt sustainable and efficient practices in their operations, including the establishment of an internal audit function, the development of risk management systems, and the implementation of specialized committees to support the board.
- emphasizes the importance of the state as owner setting concrete and ambitious, sustainability-related expectations for SOEs, including on disclosure and transparency, the role of the board, and stakeholder engagement. The implementation of these recommendations could have a significant impact on the transition to a sustainable Australia, contributing to the achievement of the United Nations Sustainable Development Goals.
- recognizes that the guidelines are not prescriptive, and that the implementation of the recommendations will depend on the specific context of each SOE.
- suggests that the guidelines should be accompanied by a toolkit that provides practical guidance and examples of good practices to support SOEs in their implementation efforts.

Overall, the BCSD Australia submission welcomes the value of the revision of the OECD Guidelines on Corporate Governance of SOEs. This submission seeks to provide an argument for development of guidelines to create a clear and actionable roadmap for SOEs to follow, ensuring that they not only meet but exceed expectations in sustainability and responsible business conduct.

BCSD Action on this Agenda

The OECD Guidelines on Corporate Governance of State-Owned Enterprises (SOEs) and the work of the World Business Council for Sustainable Development (WBCSD) both aim to promote sustainable and efficient practices, but they focus on different aspects of the business world.

The OECD Guidelines provide advice to countries on how to manage their responsibilities as company owners, aiming to make SOEs more competitive, efficient, and transparent. They were first developed in 2005 and updated in 2015 to reflect the experiences of countries that have implemented them. The guidelines are currently being revised again to reflect nearly a decade of experience and evolving best practices.

On the other hand, the WBCSD is a CEO-led community of over 200 of the world's leading sustainable businesses, along with a 67 global business network – of which BCSDA is the Australian Network Partner - working collectively to accelerate system transformations needed for a net-zero, nature positive, and more equitable future. We engage executives and sustainability leaders from business and elsewhere to share practical insights on the obstacles and opportunities we currently face in tackling the integrated climate, nature, and inequality sustainability challenge. Some members also include SOEs across the network.

The alignment between these two entities lies in their shared goal of promoting sustainable and efficient practices. For example:

- The OECD guidelines aim to professionalize the state as an owner and make SOEs operate with similar efficiency, transparency, and accountability as good practice private enterprises. This aligns with WBCSD's mission to make sustainable businesses more successful.
- Both entities emphasize transparency and efficiency. The OECD guidelines aim for SOEs to be transparent, while WBCSD also promotes sharing practical insights on sustainability challenges
- Both are adapting to changing circumstances. The OECD guidelines are being revised to reflect evolving best practices, while WBCSD is working on system transformations needed for a net-zero, nature positive, and more equitable future.

In conclusion, while they largely operate in different spheres (public sector vs private sector), both the OECD Guidelines on Corporate Governance of SOEs and the work of WBCSD align in their mission to promote sustainable, efficient, and transparent practices in their respective domains.

Responses to specific questions

Applicability and definitions	While the proposed definitions and guidelines are generally supportive of the Australian context, there could be potential areas of improvement, challenges, and barriers that an Australian State-Owned Enterprise (SOE) might want to consider. Here are a few: • **Clarity on Public Policy Objectives**: While the guidelines recognize that SOEs may have public policy objectives, they could provide more guidance on how these objectives should be balanced with commercial considerations. This is a common challenge for SOEs, which often have to navigate the tension between their commercial and public service roles. • **Governance and Accountability**: The guidelines could provide more detailed recommendations on governance structures and accountability mechanisms to ensure that SOEs are effectively managed and held accountable for their performance. This could include guidance on board composition, transparency, and reporting requirements. • **Competitive Neutrality**: While the guidelines emphasize the principle of competitive neutrality, they could provide more detailed guidance on how this principle should be implemented in practice. This could include recommendations on pricing, regulation, and access to government support. • **Sustainability and Social Responsibility**: The guidelines could provide more detailed guidance on how SOEs should integrate sustainability and social responsibility into their operations. This could include recommendations on environmental management, social impact assessment, and stakeholder engagement. • **International Cooperation**: Given the global nature of many SOEs' operations, the guidelines could provide more guidance on international cooperation and coordination. This could include recommendations on how SOEs can work with their counterparts in other countries to share best practices, coordinate activities, and address common challenges. We do note that most Australian SOEs are nationally focussed an opportunity to participate in peer engagement with international counterparts would be useful. • **Innovation and Digital Transformation**: The guidelines could provide more guidance on how SOEs can drive innovation and digital transformation. This is particularly relevant in the current context, where digital technologies are reshaping many industries and creating new opportunities and challenges for SOEs.

I. Rationales for state ownership	The proposed rationale emphasizes the importance of transparency, accountability, and clear definition of objectives in the state ownership of SOEs. From the perspective of an Australian SOE, these principles align with good governance practices. However, there could be potential areas of improvement, challenges, and barriers that might be considered: • Clear Definition of Objectives: The guidelines call for a clear definition of the rationales for state ownership and the objectives of individual SOEs. They suggest that these objectives should be defined and communicated through a high-level policy document that outlines the overall rationales for state enterprise ownership. This document should ideally be communicated to the public and all parts of the government that exercise ownership rights or are otherwise involved in the implementation of the state's ownership policy. However, the guidelines could provide more specific recommendations on stakeholder consultation, benchmarking against best practices, and the use of performance indicators. • Political Accountability: The guidelines call for appropriate procedures of political accountability. They suggest that the development and updating of the state's ownership policy should involve public consultation, including soliciting input from the general public, private sector representatives, and trade union representatives. However, they could provide more detailed recommendations on what these procedures should entail. This could include guidance on the role of parliamentary oversight, the use of independent audits, and mechanisms for public participation. • Regular Review and Evaluation: The guidelines call for a regular review of the ownership policy and its implementation. They suggest that these reviews could be part of the state budgetary processes, medium-term fiscal plans, or in accordance with the electoral cycle. However, they could provide more guidance on how these reviews should be conducted. This could include recommendations on the frequency of reviews, the use of external evaluators, and the criteria for evaluation. • Public Disclosure: The guidelines call for the ownership policy to be disclosed to the general public. They suggest that the ownership policy should be accessible to the general public and widely circulated amongst the relevant ministries, agencies, SOE boards, management, and the legislature. However, they could provide more guidance on how this should be done. This could include recommendations on the use of digital platforms, the provision of information in accessible formats, and the use of public consultations. • Balancing Commercial and Public Policy Objectives: The guidelines suggest that SOEs should balance their commercial objectives with their public policy mandates. They should be clear about the nature and extent of these obligations, as well as about their overall impact on the SOEs' resources, and economic performance. However, the guidelines could provide more guidance on how SOEs should navigate this balance. This is a common challenge for SOEs, which often have to navigate between their commercial objectives and their public policy mandates.

II. The state's role as an owner	The proposed guidelines emphasize the state's role as an informed and active owner, with a focus on transparency, accountability, professionalism, and effectiveness. From the perspective of an Australian State-Owned Enterprise (SOE), these principles align with good governance practices. However, there could be potential areas of improvement, challenges, and barriers that might be considered: • Operational Autonomy: While the guidelines call for full operational autonomy for SOEs, they could provide more guidance on how this can be achieved in practice. This could include recommendations on the separation of policy and operational roles, the use of performance contracts, and mechanisms for managing government interventions. • Board Independence and Effectiveness: The guidelines call for the state to respect the independence of SOE boards and to establish frameworks for communication with them. However, they could provide more detailed recommendations on how to ensure board independence and effectiveness. This could include guidance on board appointments, composition, training, and evaluation. • Ownership Entity: The guidelines call for the centralization of ownership functions in a single ownership entity or a coordinating body. However, they could provide more guidance on how this can be achieved in practice, particularly in complex government structures with multiple levels of government and multiple SOEs. • Performance Monitoring and Reporting: The guidelines call for the establishment of reporting systems to monitor and assess SOE performance. However, they could provide more detailed recommendations on what these systems should entail. This could include guidance on the use of key performance indicators, the role of internal and external audits, and the use of digital technologies. It is also important to Note some larger Australian SOEs are also captured under Corporations Act (Cth) and so operate in accordance with corporate governance guidance as well. In these circumstances this section could reference models of corporate plan, balance scorecard, quarterly shareholder reporting, audited financial statements, as different SOEs have different requirements. • Disclosure Policy: While the guidelines call for the development of a disclosure policy for SOEs, they could provide more guidance on what this should entail. This could include recommendations on the types of information to be disclosed, the use of digital platforms for disclosure, and mechanisms for ensuring the quality of information. • Remuneration Policy: The guidelines call for a clear remuneration policy for SOE boards. However, they could provide more detailed recommendations on what this should entail. This could include guidance on the use of performance-based remuneration, the role of remuneration committees, and mechanisms for public disclosure and accountability. In addition to these points, the annotations provided in the guidelines offer further insights: • They emphasize the importance of a clear legal framework for state ownership, including the need for effective ownership rights and the avoidance of conflicts of interest. • They stress the need for transparency and accountability in the exercise of ownership, including the disclosure of ownership structures and the use of performance indicators to evaluate SOE performance. • They discuss the role of centralised and coordinating ownership entities, which can help to ensure consistency and coherence in the exercise of ownership rights across different SOEs. • The annotations also address the involvement of institutional investors in SOEs, including sovereign wealth funds, development banks, and pension funds controlled or influenced by the state. • They highlight the challenges of managing SOEs within corporate groups, including the need to balance the interests of different stakeholders and ensure effective oversight and control.

III. State-owned enterprises in the marketplace	The proposed section emphasizes the importance of a level playing field and fair competition in the marketplace when State-Owned Enterprises (SOEs) engage in economic activities. Noting the perspective of Australian SOEs (which are owned solely by Governments), these principles align with good governance practices. However, there could be potential areas of improvement, challenges, and barriers that might be considered: • Separation of Ownership and Regulatory Functions: While the guidelines call for a clear separation between the state's ownership function and other state functions that may influence the conditions for SOEs, they could provide more guidance on how this separation can be achieved and maintained. This could include recommendations on institutional arrangements, conflict of interest policies, and mechanisms for oversight and accountability. In this context, it is worth noting that there is both separation and opportunity for SOEs to demonstrate business leadership in addressing government policy. This illustrates how SOEs can align their operational goals with broader government policy objectives while maintaining their operational autonomy. Therefore, the guidelines could benefit from including examples or case studies which demonstrates how SOEs can effectively balance the need for operational independence with the opportunity to contribute to broader societal goals. This could serve as a practical guide for other SOEs in understanding how to navigate the complex relationship between state ownership and operational autonomy. • Access to Redress: The guidelines call for stakeholders and other interested parties to have access to efficient redress through unbiased legal or arbitration processes. However, they could provide more detailed recommendations on what these processes should entail. This could include guidance on the role of ombudsman offices, the use of alternative dispute resolution mechanisms, and the provision of legal aid. • Transparency and Disclosure: While the guidelines call for high standards of transparency and disclosure regarding SOEs' cost and revenue structures, they could provide more guidance on what this should entail. This could include recommendations on the use of cost accounting systems, the role of internal and external audits, and the use of digital platforms for disclosure. • Market Consistent Conditions: The guidelines call for SOEs' economic activities to face market consistent conditions. However, they could provide more detailed recommendations on how this can be achieved. This could include guidance on pricing policies, the use of competitive tendering processes, and mechanisms for monitoring and enforcing competitive neutrality. • Public Procurement: The guidelines call for open, competitive, non-discriminatory public procurement procedures. However, they could provide more detailed recommendations on what these procedures should entail. This could include guidance on the use of e-procurement systems, the role of procurement planning, and mechanisms for ensuring supplier diversity. In addition to these points, the annotations provided in the guidelines offer further insights: • They emphasize the need for a clear separation between the state's ownership function and other state functions that may influence the conditions for SOEs, particularly with regard to market regulation and policy making. • They discuss the need for effective competition policy and regulatory frameworks, which can help to prevent anti-competitive behaviour by SOEs and ensure that they operate on a commercial basis. • The annotations also address the challenges of managing conflicts of interest between the state's ownership function and its other roles in the economy, such as providing public services or promoting industrial policy. • They highlight the importance of transparency and accountability in the exercise of ownership rights, including the disclosure of ownership structures and the use of performance indicators to evaluate SOE performance.

IV. Equitable treatment of shareholders and other investors	The proposed guidelines emphasize the equitable treatment of shareholders and other investors, particularly in situations where State-Owned Enterprises (SOEs) are listed or include non-state investors among their owners. From the perspective of an Australian SOE, these principles align with good governance practices. However, there could be potential areas of improvement, challenges, and barriers that might be considered: • Implementation of G20/OECD Principles: While the guidelines call for the full implementation of the G20/OECD Principles of Corporate Governance, they could provide more guidance on how this can be achieved in practice. This could include recommendations on the use of self-assessment tools, the role of external audits, and mechanisms for oversight and accountability. • Transparency and Disclosure: The guidelines call for a high degree of transparency, including equal and simultaneous disclosure of information to all shareholders. However, they could provide more detailed recommendations on what this should entail. This could include guidance on the use of digital platforms for disclosure, the role of investor relations departments, and the provision of regular financial and non-financial reports. • Communication and Consultation with Shareholders: The guidelines call for an active policy of communication and consultation with all shareholders. However, they could provide more detailed recommendations on what this should entail. This could include guidance on the use of shareholder meetings, the role of shareholder advisory committees, and the use of digital platforms for communication and consultation. • Participation of Minority Shareholders: The guidelines call for the facilitation of the participation of minority shareholders in shareholder meetings. However, they could provide more detailed recommendations on how this can be achieved. This could include guidance on the use of proxy voting, the role of shareholder rights plans, and the use of digital platforms for remote participation. • Adherence to National Corporate Governance Codes: The guidelines call for adherence to national corporate governance codes by all listed, and where practical, unlisted SOEs. However, they could provide more guidance on how this can be achieved in practice. This could include recommendations on the use of self-assessment tools, the role of external audits, and mechanisms for oversight and accountability. In addition to these points, the annotations provided in the guidelines offer further insights: • They emphasize the need for a clear separation between the state's ownership function and other state functions that may influence the conditions for SOEs, particularly with regard to market regulation and policy making. • They discuss the need for effective competition policy and regulatory frameworks, which can help to prevent anti-competitive behavior by SOEs and ensure that they operate on a commercial basis. • The annotations also address the challenges of managing conflicts of interest between the state's ownership function and its other roles in the economy, such as providing public services or promoting industrial policy. • They highlight the importance of transparency and accountability in the exercise of ownership rights, including the disclosure of ownership structures and the use of performance indicators to evaluate SOE performance.

V. Disclosure transparency and accountability	The proposed guidelines emphasize high standards of transparency, accountability, and integrity for State-Owned Enterprises (SOEs), including adherence to the same high-quality accounting, disclosure, compliance, and auditing standards as listed companies. From the perspective of an Australian SOE, these principles align with good governance practices. However, there could be potential areas of improvement, challenges, and barriers that might be considered: • Reporting of Material Information: The guidelines call for SOEs to report all material financial and non-financial information in line with internationally recognized standards of corporate disclosure. However, they could provide more detailed recommendations on what this should entail. This could include guidance on the use of integrated reporting frameworks, the role of sustainability reporting, and the provision of regular financial and non-financial reports. • External Independent Audit: The guidelines call for an external independent audit of SOEs' annual financial statements. However, they could provide more detailed recommendations on how this can be achieved. This could include guidance on the selection and rotation of external auditors, the role of audit committees, and the use of international auditing standards. • Internal Audit Function: The guidelines call for the development of efficient internal audit procedures and the establishment of an internal audit function. However, they could provide more detailed recommendations on what this should entail. This could include guidance on the role and responsibilities of internal auditors, the use of risk-based internal auditing, and the provision of training and professional development for internal auditors. • Risk Management Systems: The guidelines call for SOEs to have risk management systems to identify, manage, control, and report on risks. However, they could provide more detailed recommendations on what this should entail. This could include guidance on the use of enterprise risk management frameworks, the role of risk committees, and the integration of risk management into strategic planning and decision-making processes. • Reporting by the Ownership Entity: The guidelines call for the ownership entity to develop consistent reporting on SOEs and publish an annual aggregate report. However, they could provide more detailed recommendations on what this should entail. This could include guidance on the use of digital platforms for reporting, the role of data analytics, and the provision of regular updates on the performance and progress of SOEs. It is important to note that the utility of an annual aggregate report may be unclear given the great diversity in the types of businesses that SOEs operate in. An aggregate report might not capture the nuances and specific challenges faced by different types of SOEs, potentially leading to a one-size-fits-all approach that may not be beneficial for all stakeholders. Therefore, the guidelines could consider recommending a more segmented or sector-specific approach to reporting, which would allow for a more nuanced understanding of the performance and challenges of different types of SOEs. This could be in addition to, or instead of, an annual aggregate report, depending on the context and needs of the ownership entity and the SOEs themselves. In addition to these points, the annotations provided in the guidelines offer further insights: • They emphasize the need for a clear separation between the state's ownership function and other state functions that may influence the conditions for SOEs, particularly with regard to market regulation and policy making. • They discuss the need for effective competition policy and regulatory frameworks, which can help to prevent anti-competitive behaviour by SOEs and ensure that they operate on a commercial basis. • The annotations also address the challenges of managing conflicts of interest between the state's ownership function and its other roles in the economy, such as providing public services or promoting industrial policy. • They highlight the importance of transparency and accountability in the exercise of ownership rights, including the disclosure of ownership structures and the use of performance indicators to evaluate SOE performance.

VI. The composition and responsibilities of the boards of state-owned enterprises.	The proposed guidelines emphasize the importance of a well-structured, diverse, and competent board for State-Owned Enterprises (SOEs). They also highlight the need for specialized committees, annual evaluations, and efficient internal audit procedures. From the perspective of an Australian SOE, these principles align with good governance practices. However, there could be potential areas of improvement, challenges, and barriers that might be considered: • Board Composition: The guidelines call for a diverse and competent board. However, they could provide more detailed recommendations on how this can be achieved. This could include guidance on the use of board skills matrices, the role of nomination committees, and the provision of training and professional development for board members. • Specialized Committees: The guidelines call for the establishment of specialized committees to support the board. However, they could provide more detailed recommendations on what this should entail. This could include guidance on the role and responsibilities of different types of committees, the use of committee charters, and the provision of training and professional development for committee members. • Annual Evaluations: The guidelines call for an annual, well-structured evaluation of the board. However, they could provide more detailed recommendations on how this can be achieved. This could include guidance on the use of external facilitators, the role of self-assessment, and the use of evaluation results to inform board development and succession planning. • Internal Audit Function: The guidelines call for the development of efficient internal audit procedures and the establishment of an internal audit function. However, they could provide more detailed recommendations on what this should entail. This could include guidance on the role and responsibilities of internal auditors, the use of risk-based internal auditing, and the provision of training and professional development for internal auditors. • Risk Management Systems: The guidelines call for boards to actively oversee and ensure the implementation of risk management systems. However, they could provide more detailed recommendations on what this should entail. This could include guidance on the use of enterprise risk management frameworks, the role of risk committees, and the integration of risk management into strategic planning and decision-making processes. In addition to these points, the annotations provided in the guidelines offer further insights: • They emphasize the need for a clear separation between the state's ownership function and other state functions that may influence the conditions for SOEs, particularly with regard to market regulation and policy making. • They discuss the need for effective competition policy and regulatory frameworks, which can help to prevent anti-competitive behavior by SOEs and ensure that they operate on a commercial basis. • The annotations also address the challenges of managing conflicts of interest between the state's ownership function and its other roles in the economy, such as providing public services or promoting industrial policy. • They highlight the importance of transparency and accountability in the exercise of ownership rights, including the disclosure of ownership structures and the use of performance indicators to evaluate SOE performance.

VII. State-owned enterprises and sustainability	The proposed guidelines emphasize the importance of sustainability and responsible business conduct for State-Owned Enterprises (SOEs). They highlight the need for clear sustainability-related expectations, integration of sustainability into risk management, and high-quality sustainability reporting and disclosure. From the perspective of an Australian State-Owned Enterprise (SOE), these principles align with the growing global emphasis on sustainability and corporate social responsibility. However, there could be potential areas of improvement, challenges, and barriers that might be considered: • Sustainability Expectations: The guidelines call for the state to set concrete and ambitious sustainability-related expectations for SOEs. However, they could provide more detailed recommendations on how these expectations should be defined, communicated, and monitored. This could include guidance on the use of sustainability frameworks, the role of sustainability committees, and the integration of sustainability into strategic planning and performance management processes. Additionally, the Board should set the strategy in line with stakeholder expectations, ensuring that the SOE's actions are aligned with broader societal goals. • Sustainability Risk Management: The guidelines call for SOEs to integrate sustainability considerations into their risk management and internal control systems. However, they could provide more detailed recommendations on what this should entail. This could include guidance on the use of sustainability risk assessments, the role of risk committees, and the integration of sustainability risks into enterprise risk management frameworks. • Sustainability Reporting and Disclosure: The guidelines call for SOEs to be subject to appropriate sustainability reporting and disclosure requirements. However, they could provide more detailed recommendations on what this should entail. This could include guidance on the use of sustainability reporting frameworks, the role of external assurance, and the provision of training and professional development for those involved in sustainability reporting and disclosure. To avoid reinventing the wheel, the guidelines could reference widely accepted and used frameworks like GRI, ISSB, TCFD, etc., that are already available and recognized for their robustness. • Responsible Business Conduct: The guidelines call for the state to set high expectations for SOEs' responsible business conduct and to fully recognize SOEs' responsibilities towards stakeholders. However, they could provide more detailed recommendations on what this should entail. This could include guidance on the development of responsible business conduct policies, the role of stakeholder engagement, and the integration of responsible business conduct into corporate culture and decision-making processes. By incorporating these additional points, the guidelines could offer a more comprehensive and actionable roadmap for SOEs to follow, ensuring that they not only meet but exceed expectations in sustainability and responsible business conduct. In addition to these points, the annotations provided in the guidelines offer further insights: • They emphasize the need for the corporate governance framework to provide incentives for SOEs to make decisions and manage their risks in a way that contributes to sustainability and resilience and ensures long-term value creation. • They highlight the importance of the state as owner setting concrete and ambitious, sustainability-related expectations for SOEs, including on disclosure and transparency, the role of the board, and stakeholder engagement. • The annotations also address the need for SOEs to be aware of and manage their exposure to climate physical and transition risks, and to play a crucial role in fostering sustainable development and facilitating a just transition, including by providing or financing low-carbon alternatives.