



Monitoring the Performance of State-Owned Enterprises

Good Practice Guide for Annual Aggregate
Reporting



Monitoring the performance of state-owned enterprises

Good practice guide
for annual aggregate reporting

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Preface

Over the last 15 years the prevailing attitudes toward state-owned enterprises (SOEs) have changed. The privatisation waves of previous decades have mostly run their course and policy makers' focus has shifted toward enhancing the efficiency of those enterprises that remain in state ownership. The OECD supports reform efforts based on international best practices for the ownership and governance of SOEs, codified in our *Guidelines on Corporate Governance of State-Owned Enterprises*.

Improving transparency is among the top priorities. Government owners are increasingly aware that high standards of transparency and accountability are critical for maximising the efficiency of SOEs. Moreover, as many SOEs increasingly participate in global value chains high levels of transparency have gained additional importance as a tool for ensuring their welcome abroad.

The quest for transparency has two main elements. At the company level SOEs need to implement internationally recognised accounting and reporting standards, and subject themselves to robust controls including independent external audits. The state as an enterprise owner further needs to disclose information about the financial and non-financial performance of its entire portfolio. Indeed, over the last five years more than two-thirds of our member countries have implemented such "annual aggregate reporting" or have enhanced existing disclosure systems.

Despite these improvements, enhancing transparency continues to be an important policy objective. This is why the OECD Working Party on State Ownership and Privatisation Practices, which I have the honour of chairing, has developed the present report. It is a step-by-step guide based on international best practices, intended as an essential part of SOE policy makers' toolkit. In an era where governments seek to enhance their disclosure beyond compliance-driven reporting, the guide provides a valuable starting point for advanced countries as well as newcomers to reform.

I urge policy makers to use the report to guide their transparency enhancing initiatives. As demand for open and transparent government grows, and the need for the state to "lead by example" becomes increasingly important, I have no doubt that the advice provided will be relevant for the years to come. The Working Party stands ready to engage with any country who wishes to learn from OECD best practices and share their own reform experiences.



Charles Donald

Chair

Working Party on State Ownership and Privatisation Practices

Foreword

This *Good Practice Guide for Annual Aggregate Reporting* supports implementation of the SOE Guidelines Recommendation VI.C which states that “The ownership entity should develop consistent reporting on SOEs an aggregate report on SOEs.” It responds to a request by the OECD Working Party on State Ownership and Privatisation Practices.

The Guide is informed by information gathering exercises conducted by the Working Party to monitor implementation of the SOE Guidelines, desk research, and interviews with ownership entities on their national practices, including from Finland, Ireland, Netherlands, Norway, Sweden and Turkey.

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Executive Summary

An increasing number of governments recognise the need for enhanced transparency and monitoring around the performance of their state-owned enterprises (SOEs). Two-thirds of OECD surveyed economies annually disclose on the performance of their portfolios in aggregated format. Based on this upward trend, the *Good Practice Guide to Annual Aggregate Reporting* draws on diverse national experiences to develop the business case for annual reporting by state-ownership entities. The Guide offers a step-by-step road map, illustrated with good practice examples, on how to develop high quality reporting, in aggregated format. As many government owners seek to enhance their disclosure beyond compliance-driven reporting, the Guide can support both newcomers and regulars to the practice. The main areas covered by the Guide are as follows:

Drivers that support enhanced transparency. Over the last 15 years, there is a general upward trend towards aggregate reporting. This is due to increased centralisation or coordination of the portfolio of SOE and professionalization of ownership practices; efforts to increase transparency and level the playing field in the SOE sector; and general trends towards more open and transparent government. Good quality aggregate reporting has also made possible due to (1) strengthened legal and regulatory requirements for disclosure and transparency by SOEs; (2) the widespread use of internationally recognised accounting and reporting standards; and (3) subjecting SOEs to a robust control environment, including independent external audit, among other areas. The quality and quantity of reporting by individual SOEs is a key input to quality annual aggregate reporting.

What is aggregate reporting? Aggregate reporting is a one-stop-shop for information, published on an annual basis in aggregate, on the financial and non-financial performance of a significant share of the economically important SOE portfolio of a jurisdiction. Reporting gives the full picture of the SOE portfolio performance for the reporting period, in comparison with past performance, and has “forward looking” elements that support value creation in the SOE sector. Reporting is not purely compliance-driven. In fact, reporting should give the “bigger picture” on critical contextual and non-financial information that supports an informed reading of financial information. Information should be of high quality, comparable, concise and accessible enough to give stakeholders a meaningful understanding of the key issues and over time.

Types of annual aggregate reporting. Annual reporting can take the form of a narrative report with financial and non-financial information, an online inventory of financial and non-financial indicators, or a report to the parliament. While most countries do not have a legal obligation to issue such reports, they do so as a measure of good practice aimed at enhancing transparency and ensuring active and professional ownership. The coverage of the reporting often depends on the nature and professionalization of ownership arrangements, the size of the portfolio and the availability information.

Why is aggregate reporting important? Annual aggregate reporting can support active and informed ownership; open and transparent government; and level the playing field. Annual reporting ensures the government has a high-level understanding of its portfolio performance, which links back to its ownership policy. This in turn allows for the setting of metrics to better monitor and evaluate the achievement of ownership objectives. Moreover, systematic information gathering can feed into more robust performance management systems, and serve as an incentive to continue to improve performance and drive better

transparency and disclosure. The supporting analysis and conclusions, made public in the annual report, are important to ensure SOEs run in taxpayers' best interests and ensure future value creation. In some jurisdictions implementation of a whole-of-government basis still remains a challenge which highlights the importance of continued work in the area of transparency and disclosure.

Content and coverage of aggregate reporting. The coverage and depth of aggregate reporting still varies differs across jurisdictions. Reporting should, at minimum, cover three main pillars: (1) overview of the composition, performance and value of the sector; (2) financial reporting in aggregate and across individual SOEs/by sector; and (3) non-financial reporting in aggregate and across individual SOEs/by sector on thematic areas. Key financial performance indicators such as return on equity and equity/assets ratio, dividend policy, share of employment, portfolio value are common. Among other areas, the report should cover achievement of public policy objectives, the nomination, composition, qualifications and remuneration of state-owned governing bodies, and detailed reporting on individual state-owned enterprises or by sector. Moreover, while non-financial reporting has traditionally focused on governance, there is a trend to move towards more robust reporting on social and environmental issues and risk management. An emerging area of good practice is to evaluate the fulfilment of individual SOEs against financial and non-financial targets set by the state-owner and disclosure of non-commercial assistance.

Publication, dissemination and accessibility. The aggregate report should be published on an annual basis. It can be a useful tool to communicate financial and non-financial portfolio performance to various stakeholders, ranging from the legislature, state audit institutions, the press and the public. Increasingly there is a move towards more sophisticated digitalised portals have features that allow users to interact with the data, making it searchable and downloadable either in aggregate or disaggregate format.

1 Objective and Scope of the Guide

This chapter introduces readers to the objective and scope for the guide, as well as its intended audience. The chapter provides a brief overview of trends in transparency and disclosure practices, which demonstrate further alignment with the OECD Guidelines on Corporate Governance of State-Owned Enterprises.

Objective and scope for the guide

The OECD Guidelines on Corporate Governance of State-Owned Enterprises (the “SOE Guidelines”) set the standard for ensuring that state-owned enterprises (SOEs) operate efficiently, transparently and on equal footing with private companies (OECD, 2015^[1]). Among its fundamental policy tenets are recommendations to ensure high levels of transparency and disclosure; and to promote professionalised, active and informed ownership practices.

In this vein, the Guidelines call for the state-owner – 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 narrative aggregate reports that synthesise information on the performance of state-owned enterprises, which contribute to a culture of greater accountability in the public administration.

This Guide is intended to elaborate on and provide implementation guidance under Recommendation VI.C of the *OECD Guidelines on Corporate Governance of State-Owned Enterprises* which calls for: “*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.*”

It provides guidance on the rationale and benefits of aggregate reporting, and draws upon existing best practices to provide a step-by-step guide on how to develop the aggregate report, including the format the aggregate report might take (drawing on diverse national practices), coverage and dissemination, among other areas. The Guide is divided into the following sections:

- Chapter 9 covers the objective and scope for this guide, as well as trends in transparency enhancing practices by government owners
- Chapter 2 describes transparency and disclosure frameworks applicable to SOEs
- Chapter 3 describes the rationale and purpose of the annual aggregate report
- Chapter 4 covers the “who, when and the how” of aggregate reporting
- Chapter 5 provides an overview of the content and coverage
- Chapter 6 covers publication, dissemination and accessibility.

The primary audience of the Guide are state-ownership entities that have not yet developed annual aggregate reporting, or which seek to align their practices with the spirit of the SOE Guidelines. However, it can be useful for countries which already produce some form of aggregate reporting to draw on best practices of other jurisdictions and potentially expand their coverage.

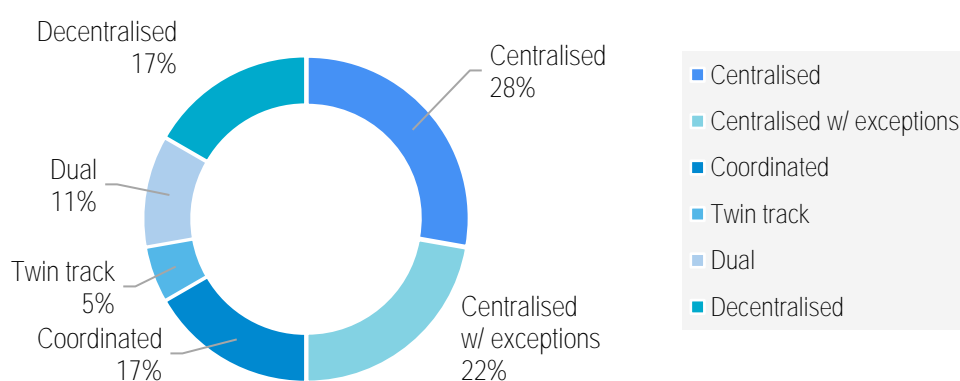
Recent trends that support improved transparency

Since the SOE Guidelines were adopted in 2005, there is a documented upward trend among OECD and Partner economies that 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. (OECD, 2020^[2]) (OECD, 2020^[3]) (OECD, 2016^[4]) (OECD, 2017^[5])

Heightened disclosure has often occurred in tandem with other trends, including the professionalization of the state-ownership function. A recent OECD study (OECD, 2020^[6]) shows that an increasing number of countries have strengthened the parts of government responsible for policy co-ordination or centralisation of the ownership function (Figure 1.1). Efforts to centralise or coordinate ownership have also gone hand in hand with other governance improvements, and have a direct impact on building competence, requisite mandate and capacity to collect and aggregate financial and non-financial information regarding the broader state ownership portfolio.

Figure 1.1. State ownership arrangements (36 economies)

Efforts to centralise ownership go hand-in-hand with governance improvements



Source: (OECD, 2020^[6])

The high degree of implementation partly reflects the fact that SOEs in most countries abide by general legal frameworks that apply to the entire corporate sector. This has been done either by subjecting SOEs to generally accepted corporate norms, through corporatisation or listing (either debt or equity) on financial or capital markets, which often require subjecting SOEs to internationally accepted reporting and auditing standards. These efforts have brought practices closer to the aspirational standards set by the SOE Guidelines (OECD, 2020).

As discussed in more detail in the next chapter, over the last five years, implementation of Chapter VI of the SOE Guidelines bearing on disclosure and transparency is on an upward trend. Around two-thirds of surveyed countries having introduced or strengthened legal and regulatory requirements for disclosure and transparency. These frameworks relate to (1) improved disclosure and reporting norms applicable to SOEs; (2) widespread use of internationally recognised accounting and reporting standards; and (3) subjecting SOEs to a robust control environment, including independent external audit, among other areas (Figure 1.2. Annual aggregate reporting trends (54 economies)).

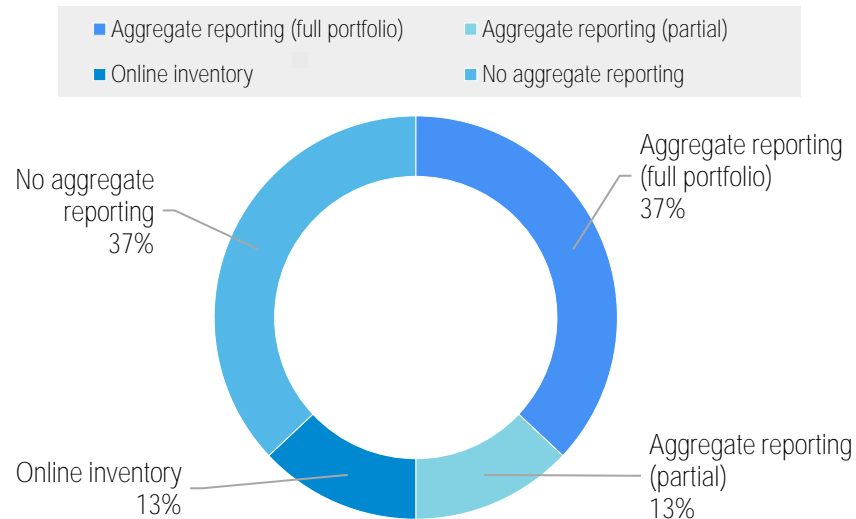
The level of implementation of the Guidelines in the area of transparency and disclosure still varies considerably from one jurisdiction to another, especially if a country is at an earlier stage of implementing the Recommendations. Globally, SOEs may be subject to a weaker disclosure regime than publicly traded companies if they are not fully corporatised or are subject to weak enforcement of relevant corporate disclosure laws applicable to SOEs. 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). 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.

Recent information gathering of OECD and Partner economies national practices show that around two-thirds of countries have put into place some form of aggregate reporting on their SOE portfolios in a consistent manner (OECD, 2020^[2]) (OECD, 2020^[6]) (Figure 1.2).¹ Improved transparency and disclosure practices by individual SOEs has helped to ensure that the ownership entity has robust and independently verified information on which to base its own analysis of its overall state portfolio, which can serve as input to development of the annual aggregate report. As discussed in the next section, the quality of aggregate reporting by ownership entities will depend on the quality of disclosure by individual SOEs.

¹ Figures here are cited are derived from (OECD, 2020^[2]) (OECD, 2020^[6]). Differing figures across these reports relate to the sample of countries surveyed.

Figure 1.2. Annual aggregate reporting trends (54 economies)

Around two-thirds of countries have put into place some form of aggregate reporting (either full or partial coverage of the portfolio) or alternatively issue an online inventory



Source: (OECD, 2020^[3])

While these numbers demonstrate an upward trend from earlier surveys measuring SOE Guidelines implementation over the last 15 years, there is still some divergence across coverage and comprehensiveness of annual aggregate reporting. Subsequent chapters of guide will better clarify the expected coverage and scope of annual aggregate reporting, and identify best practices and case examples from national experiences.

2 Towards improved transparency and disclosure by state-owned enterprises

This chapter explores recent trends that support better quality and quantity of transparency and disclosure practices by state-owned enterprises. The quality of aggregate reporting by ownership entity will depend on robust and independently verified information on which to base its own analysis of its overall state portfolio. The chapters explores good practices in financial and non-financial reporting, as well as accounting and audit standards and practices. The chapter further explores how the state owner can support better transparency and disclosure by state-owned enterprises, through active and informed ownership.

Information disclosure by state-owned enterprises (SOEs), including both financial and non-financial data, is essential for the government to be an effective and informed owner; for the Parliament to evaluate the performance of the state as an owner; for the media to raise awareness on SOE efficiency; and for taxpayers and the general public to have a comprehensive picture of SOE performance. Good information disclosure allows the state as an owner to strengthen accountability of SOE boards and management, while also maintaining long term insight on enterprises' operations and address ownership issues on an ongoing basis. It is also a key input to develop high quality annual aggregate reporting.

Robust information disclosure will depend on the standards of accounting, corporate disclosure, compliance and audit practices applicable to SOEs in a given jurisdiction. Moreover, transparency and

disclosure practices will vary according to the size and commercial orientation of a company. A small SOE engaged purely in public policy activities, would not have the same requirements as a large SOE active in competitive markets, and concurrently tasked with carrying out significant public policy. A publicly traded company or one that issues debt on capital markets will have higher standards for transparency and disclosure, due to listing requirements, relevant securities regulation, and/or applicable corporate governance codes.

With due regard to enterprise size and activities, the benchmark established by the OECD Guidelines on Corporate Governance of State-Owned Enterprises (the “SOE Guidelines”) is to set disclosure standards as high as those established for listed companies. A recent assessment of 27 economies indicates that most OECD jurisdictions subject SOEs to the same disclosure requirements as privately companies (operating in like circumstances), and often apply the same requirements as those applicable to listed companies (OECD, 2020^[2]).

These requirements, depending on the legal form of the SOE and established reporting requirements, are often based on company law, codes of corporate governance, listing requirements applicable to publicly traded companies (even in cases where SOEs are not publicly traded), or SOE specific laws. Additionally, some SOEs may be subject to additional disclosure requirements depending on their legal form, and nature of activities (e.g. public interest entities, recipients of state funds or benefits). Applicability of national corporate governance codes to SOEs, which may lay out stipulations for transparency and disclosure do not uniformly apply to SOEs across jurisdictions. However, compliance with such Codes can serve as an important benchmark to evaluate a company’s level of transparency and disclosure.

There are three main criteria for high-quality reporting that will be discussed further below, these include how complete they are, in terms of the content of financial and non-financial disclosure; their comprehensiveness and robustness; and their integrity, in terms of the degree of external validation. The quality, robustness and completeness of disclosure by individual SOEs may vary greatly depending on the applicable standards of accounting and audit applied. Most state-owners set the standards that are applicable to their majority-owned SOEs, however, the level of compliance by SOEs, as well as the completeness or quality of financial and non-financial disclosure, is assured the boards of directors (ideally including independent directors) which often have among their key duties to ensure timely and quality disclosure by SOEs. In turn, boards of SOEs and shareholders will rely on assurances provided by external independent auditors. Thus an important benchmark for the quality of disclosure will rely on active regulatory oversight and implementation by SOEs.

The next sections will explore (1) characteristics of high quality transparency and disclosure by SOEs; (2) the content and coverage of financial and non-financial reporting by SOEs; and (3) the role of the state in improving transparency and disclosure by SOEs.

Characteristics of high quality transparency and disclosure

Internationally recognised financial reporting standards

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 most OECD economies, there is a mix of use between internationally recognised standards (such as International Financial Reporting Standards (IFRS) or Generally Accepted accounting Principles (GAAP)²) and the national accounting standard (which might be

² IFRS are issued by the International Accounting Standards Board (IASB) and differ in certain respects from U.S. Generally Accepted Accounting Principles (U.S. GAAP), which include financial accounting and reporting standards

IFRS/GAAP consistent). The application of IFRS globally is mostly obligatory for listed companies and for large SOEs, company groups and financial institutions. In some countries, however, IFRS is optional for large non-financial SOEs. Applying internationally recognised and high quality reporting standards for SOEs and privately-owned enterprises ensures comparability of financial reporting across enterprises, and serves as an objective basis on which to present and compare financial information. In some countries, SOEs (and other large and/or public interest enterprises) are expected to go above and beyond standard corporate disclosure practices. These additional areas of disclosure might relate to transparency around costing of public service obligations; as well as non-financial reporting such as integrating sustainability reporting standards on non-financial reporting in areas of relevance to environmental, social and governance (ESG) reporting (see for example requirements and proposals that apply in the European Union and Economic Area Box 2.1).

Harmonization of the reporting standards used by SOEs can support methodologically sound basis on which to aggregate information gathered from across the SOE portfolio, and to develop comparative benchmarks on SOE performance across the portfolio and in comparison with private peers. It is important for the annual aggregate report to be transparent about the applied reporting standards applicable to individual SOEs (especially where standards may vary), and by the ownership entity when presenting aggregate information by the portfolio. Similarly, IFRS standards can also be applied (as for when presenting consolidated financial statements for company groups) when aggregating information for the SOE portfolio (see also Chapter 5, Methodology for aggregate financial reporting)

Independent external audit

The quality of a company's financial reporting, supported by an independent external audit, serve as key elements of a company's corporate governance framework necessary to ensure market confidence, accountability and good corporate governance. The SOE Guidelines Recommendation VI.B state that "*SOEs' annual financial statements should be subject to an independent external audit based on high-quality standards.*" Furthermore, the G20/OECD Principles of Corporate Governance Recommendation V.C state that "*annual audits should be conducted by an independent, competent and qualified, auditor in accordance with high-quality auditing standards in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the company in all material respects.*" In most jurisdictions, shareholders will have the primary responsibility for appointing and/or approving the external auditor. However, there are some jurisdictions that have a divided responsibility for appointing the external auditor based on a proposal by the board that must be approved by the shareholders. (OECD, 2021^[7])

In some jurisdictions governments may rely mainly on existing state auditing bodies and other intra-government control instances to oversee SOEs, but the SOE Guidelines recommend that, in order to reinforce trust in the information provided, the state should require all large SOEs be subject to external independent audits that are carried out in accordance with international standards. The use of state audit may also apply to SOEs on an *ad hoc* basis and mainly serves to evaluate the efficiency of the use of public assets and finances and observance of legal regulations. In a minority of jurisdictions, state audit is mandatory on a yearly basis on top of existing internal and independent external controls, demonstrating that, in those cases, state accountability measures are considered to be an additional and necessary layer of controls (Figure 2.1).

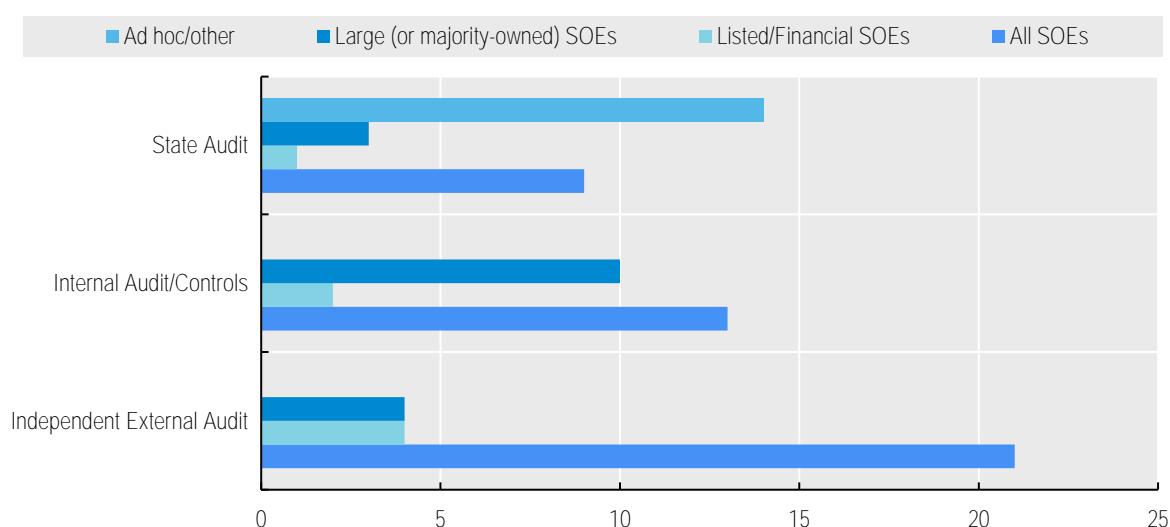
In order to promote the independence and accountability of external auditors for public interest or publicly listed companies, some jurisdictions have adopted such provisions as mandating auditor rotation, and

issued by the Financial Accounting Standards Board (FASB). While IFRS are more widely used internationally, the US GAAP is the predominant accounting and reporting standard used for disclosure in the US and some other markets.

prohibiting or restricting non-audit services procured by external auditors for their audit clients, such as tax services. Moreover, in some case (e.g. European Union) regulation has introduced expanded responsibilities of the audit committees of public interest entities, that also requires the audit committee to monitor the audit process and to recommend at least two audit firms to the board, with a justified case for one. (OECD, 2021^[7])

Figure 2.1. Applicability of external and internal independent audit and controls in SOEs (OECD economies)

SOEs are increasingly subject to robust control environment including mandatory independent external audit, internal audits/controls and in some cases additional or *ad hoc* state audit procedures



Source: (OECD, 2020^[2])

Internal audit and controls

The robustness of SOE internal controls, including internal audit functions determine the completeness, integrity, accuracy, timeliness and frequency of financial (and non-financial) reporting in a SOE. Internal controls have an important role to play in terms ensuring the integrity of financial reporting, and more broadly other risks that could have an impact on business integrity. Concerning internal audit, 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. While internal audit functions are not always mandatory in SOEs – with due regard for size and operations of individual SOEs – in large commercially oriented companies internal audit and related control functions have and arguably should become mainstream corporate functions. Where internal audit functions exist, it is almost systematic for them to have a direct reporting line to the (relevant committee of) supervisory board (where they exist). 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.

Content and coverage of financial and non-financial reporting by SOEs

Financial and non-financial disclosures requirements may vary across jurisdictions. These differences emanate from regulatory requirements, and reporting obligations and what information is deemed material and necessary to the line of business of a particular company. Further differences may be accounted for

because of the level of transparency already available in the marketplace, which may drive corporate disclosure to higher standards than the established regulatory requirements. Moreover, transparency and disclosure levels must also satisfy the demand, interest and concerns of owners, investors, stakeholders and the affected communities they impact. However, some of the basic principles set out by the *G20/OECD Principles for Corporate Governance* and the *OECD Guidelines on Corporate Governance of SOEs* lay down some guideposts for which aspects should be incorporated into disclosures – these aspects include (see also Infographic 2.1):

- Commercial and non-commercial objectives
- Financial and operating results
- Governance, ownership and voting structures
- Board and executive composition and remuneration
- Board qualification, selection process, diversity and independence requirements
- Material risks and mitigation measures
- Financial assistance and liabilities
- Related party transactions
- Employee and stakeholder issues

Typically the annual report of a company will be an important source of information to help interpret the financial and operating results as enumerated in the audited financial statements of a company. As mentioned large, commercially operating SOEs should produce annual financial statements, including a balance sheet, cash flow statement, profit and loss statement, statement of changes to owners' equity, and notes. These statements should generally be finalized three to six months after the end of the financial year. They should be prepared in accordance with the accounting standards required for domestic private sector enterprises of a comparable size and complexity. Reporting should be complete, concise, reliable and comparable.

Increasingly, a number of SOEs are also subject to enhanced standards in non-financial reporting on ESG matters, and in particular sustainability especially when this is material to the SOEs' business operations. This can be in the form of 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, and state ownership policies or disclosure policies that put forward requirements or expectations towards SOEs in these areas.

While no one international standard exists, some of the commonly used standards include the reporting frameworks proposed by the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB). Some companies apply multiple reporting standards to meet the need of various audiences with regards to sustainability reporting and as a practical tool for implementing principles-based frameworks, such as those proposed by the Taskforce on Climate-Related Financial Disclosures (TCFD) (see Table 2.1). In a growing number of cases sustainability reporting may also be subject to mandatory external independent audit to provide further assurances on the reliability and accuracy of the non-financial reporting, especially for climate-related disclosures.

Table 2.1. Examples of non-financial reporting standards with a focus on sustainability

Initiative	Description
Global Reporting Initiative (GRI)	Global Reporting Initiative (GRI) provides specific disclosure guidelines and requirements for compliant non-financial sustainability reporting on the environment, as well as economic and social performance. GRI is modular and can be used in a selective fashion to meet the desired compliance level and disclosure needs of the reporting entity.
Task Force on Climate-related Financial Disclosures (TCFD)	Task Force on Climate-related Financial Disclosures (TCFD) was established by the Financial Stability Board to improve and increase reporting of climate-related financial information. Climate-related disclosure is expected to promote more informed investment, credit and insurance underwriting decisions and allow stakeholders to understand better the concentrations of carbon-related assets in the financial sector and exposures to climate-related risks. Further to the standard, an implementation guide was adopted, covering areas, including advancement of climate disclosure based on governance, strategy, risk management, and metrics and targets. More information is available here: https://www.fsb-tcfid.org .
Sustainability Accounting Standards Board (SASB)	SASB Standards identify the subset of ESG issues related to financial performance across 77 industries, and allow businesses to identify, manage and communicate financially material sustainability issues to investors. These standards were published in 2018, providing a set of industry-specific areas and associated metrics. SASB also provides a materiality map, standards navigator, as well as engagement guide for investors to understand materiality issues. Within a subset of ESG and sector-specific topics, SASB has environment-specific approaches, including those related to greenhouse gas emissions in accordance to frameworks, including TCFD and CDSB.
Climate Disclosure Standards Board (CDSB)	Climate Disclosure Standards Board sets out an approach to report on environmental and climate change information in annual and integrated reports, among others. It is designed to help organisations to prepare and present environmental information into mainstream reports for the benefit of investors. It allows investors to analyse relationship between specific environmental matters and the organisation's strategy , performance and prospects. The framework was updated in April 2018 to align with TCFD and other reporting requirements.
Integrated Reporting (IR)	The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting. The IR Framework ⁴ has been developed to meet this need and provide a foundation for the future. The IIRC's long-term vision is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by as the corporate reporting norm. The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability.
Climate Disclosure Project (CDP)	Climate Disclosure Project (CDP) was established as a platform to link environmental integrity and fiduciary duty. Currently it runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. It supports thousands of companies, cities, and regions to measure and manage risks and opportunities on areas, including climate change, water security and deforestation. CDP also takes the information supplied in its annual reporting process and scores companies and cities based on environmental leadership.
GHG Protocol Corporate Accounting and Reporting Standard	The GHG Protocol Corporate Accounting and Reporting Standard provides requirements and guidance for companies and other organizations preparing a corporate-level GHG emissions inventory. It covers the accounting and reporting of seven greenhouse gases covered by the Kyoto Protocol. It was updated in 2015 with the Scope 2 Guidance, which allows companies to credibly measure and report emissions from purchased or acquired electricity, steam, heat, and cooling.
Non-financial Reporting Directive (NRRD)	Under Directive 2014/95/EU, large EU-based companies have to publish information, on a comply or explain basis, related to environmental and social matters, treatment of employees, respect for human rights, anti-corruption and bribery and diversity on company boards (in terms of age, gender, educational and professional background). The Commission adopted a proposal for a Corporate Sustainability Reporting Directive, which would amend the existing reporting requirements of the NFRD. (See also Box 2.1)

Source: (OECD, Forthcoming^[8])

Infographic 2.1. Financial and non-financial reporting by SOEs and listed companies

Enterprise objectives and fulfillment

- Commercial objectives, strategy and business model
- Non-financial objectives: Social, human rights, public policy commitments
- Net turnover figures
- Payments to governments (as required)

Financial and operating results

- Audited financial statements showing financial performance & financial situation
 - Balance sheet
 - Profit and loss statement
 - Cash flow statement
- Management analysis of operations
- Funding and financing of public policy objectives (as applicable)

Governance, ownership and voting structure

- Major share ownership, beneficial ownership, controlling shareholders & large block holders
- Special voting rights, shareholder agreements, cross shareholdings/guarantees, golden shares or veto powers
- Ownership entity
- Company group structure
- Corporate governance practices including of subsidiaries
- Applicable corporate governance codes/rules
- Division of role and responsibilities of CEO and/or Chair
- Relevant charters, articles of association, committee structures

Board/executive composition, independence, qualifications and selection processes

- Board & executive experience, qualifications, share ownership, executive positions, level of independence
- Selection and nomination process

Material and foreseeable risks and mitigation measures

- Financial and operational risks (Industry, political, geography, dependence of commodities, financial markets (interest rate or currency risk), derivatives and off balance sheet transactions and liabilities)
- Business conduct, environmental, human rights, labour and tax related risks
- Risk management and monitoring practices

Board and executive remuneration

- Remuneration plans and incentive schemes (stock options, performance criteria)
- Individual remuneration (termination and retirement provisions)

Financial assistance

- Mutual obligations, financial assistance or risk sharing mechanisms with state
- State grants or subsidies, guarantees
- PPPs

Material transactions with state and other related entities

- Related party transactions with state and other SOEs, including subsidiaries, major shareholders, common control companies
- Nature of relationship, nature amount of transaction

Employee and stakeholders

- Management/employee relations (remuneration, collective bargaining coverage, employee representation)
- Stakeholders (creditors, suppliers, local communities)

Source: Author, derived from G20/OECD *Principles of Corporate Governance* and OECD *Guidelines on Corporate Governance of SOEs*.

Box 2.1. European Accounting and Non-financial Reporting Directives

Accounting directive

Aims to ensure the clarity and comparability of financial statements, other than international financial reporting standards (IFRS) for listed, medium/large and public interest enterprises. Annual financial statements must:

- contain, as a minimum, the balance sheet, the profit and loss account and the notes to the financial statements;
- give a true and fair view of the company's assets, liabilities, financial position and profit or loss;
- be published by each company in the relevant national business register;
- The directive sets out general financial reporting principles, such as consistent application of accounting policies and measurement bases from one year to the next;
- Detailed rules cover the presentation of the balance sheets, profit and loss accounts and the notes to the financial statements, as well as management reports, non-financial information, corporate governance and consolidated statements;
- The financial statements of public-interest entities, medium-sized and large undertakings must be audited by one or more statutory auditors;
- Large companies involved in mining minerals, oil, natural gas or other materials or involved in logging in primary forests* must publish details of payments over 100 000 EUR in total that they make to governments in any financial year.

Non-financial reporting directive

Under Directive 2014/95/EU, large companies have to publish information, on a comply or explain basis, related to:

- environmental matters;
- social matters and treatment of employees;
- respect for human rights;
- anti-corruption and bribery;
- diversity on company boards (in terms of age, gender, educational and professional background).

Proposal for Corporate Sustainability Reporting Directive

The Commission adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD), which would amend the existing reporting requirements of the NFRD. The proposal

- extends the scope to all large companies and all companies listed on regulated markets (except listed micro-enterprises);
- requires the audit (assurance) of reported information;
- introduces more detailed reporting requirements, and a requirement to report according to mandatory EU sustainability reporting standards;
- requires companies to digitally 'tag' the reported information, so it is machine readable and feeds into the European single access point envisaged in the capital markets union action plan.

Source: (European Union, 2021^[9]) (European Union, 2014^[10]) (European Union, 2013^[11])

Role of the state-owner: towards improved transparency and disclosure

The SOE Guidelines recommend that the state should act as an active and informed owner. In the area of raising transparency and disclosure practices, the state owner can (1) develop a transparency and disclosure policy for the enterprises it owns; (2) set and monitor SOE mandates and objectives; (3) set up regular systems to monitor, audit and assess SOE performance and compliance; and (4) ensure dialogue with external auditors and state control bodies (when permitted and legal). By putting in place these practices, as discussed further below, the ownership entity will have a more robust approach towards developing annual aggregate reporting, ensuring that the underlying information is based on a solid reporting and disclosure framework.

Develop a disclosure policy for SOEs

The first step towards raising transparency and disclosure practices by SOEs begins with the state owner developing a coherent transparency and disclosure policy for the enterprises it owns. As underlined by the annotations to SOE Guidelines II.F.5: “The disclosure policy should emphasise the need for SOEs to report material information. The development of the disclosure policy should build on an extensive review of existing legal and regulatory requirements applicable to SOEs, as well as the identification of any gaps in requirements and practices as compared with good practice and national listing requirements. Based on this review process, the state might consider a number of measures to improve the existing transparency and disclosure framework, such as proposing amendments to the legal and regulatory framework, or elaborating specific guidelines, principles or codes to improve practices at the enterprise level.”

To develop a coherent disclosure policy, the ownership entity should consult with SOE boards and management, as well as with regulators, members of the legislature and other relevant stakeholders. One important way to ensure take-up of the disclosure policy, is to ensure effective and wide communication with SOEs. Where necessary, the development of guidance manuals and training seminars for SOEs; special initiatives such as performance awards that recognise individual SOEs for high quality disclosure practices; and mechanisms to measure, assess and report on implementation of disclosure requirements by SOEs, might be helpful to encourage implementation (see Box 2.2). The ownership entity should also place importance on the quality of information at the enterprise level.

Box 2.2. Role of the state owner: supporting improved transparency and disclosure by SOEs

Korea: 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.”

The Netherlands: The ‘Transparency Benchmark’ ranks large companies according to their level of transparency.

Lithuania: The ownership coordination agency developed the called “SOE Governance Index” ranks SOEs according their good governance practices.

Hungary: The Hungarian National Asset management Company (MNV Zrt.) has developed a united information reporting system which includes specific indicators for each SOE under the control of the NVTNM.

Source: (OECD, 2020_[3]) (OECD, 2020_[2])

At the same time, disclosure requirements should not place unreasonable administrative or cost burdens on enterprises. Nor are companies expected to disclose information that may endanger their competitive position unless disclosure is necessary to fully inform investment decisions and to avoid misleading the investor, other market participants or regulators. In order to determine what information should be disclosed, at a minimum, many countries apply the concept of materiality.³

The disclosure policy applicable to SOEs might be based on best practices and national listing requirements, and could be supplemented by additional requirements that ensure SOEs disclose in areas relevant to public interest, especially if they carry out non-commercial activities.

Specific reporting standards might subject to SOEs to a higher level of disclosure with regard to accounting for non-commercial activities; related party transactions; responsible business conduct; sustainability, among other areas. For instance, Sweden and the United Kingdom have specific manuals for SOEs to follow for financial and non-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 disclosure policy, among other areas, might also set out requirements for the independence of the audit committee of the board (e.g. **Estonia**); it might elaborate on the relevant accounting and audit standards, and set out the additional disclosure areas expected by SOEs in light of their commercial and non-commercial activities. (OECD, 2020_[3]) Developing a good transparency and disclosure policy should involve consultation across government and with SOEs. When necessary, the ownership entity might

³ Material information can be defined as information whose omission or misstatement could influence the economic decisions taken by users of information. Material information can also be defined as information that a reasonable investor would consider important in making an investment or voting decision.

support implementation by SOE by developing guidance manuals and training seminars to raise awareness and share good practices.

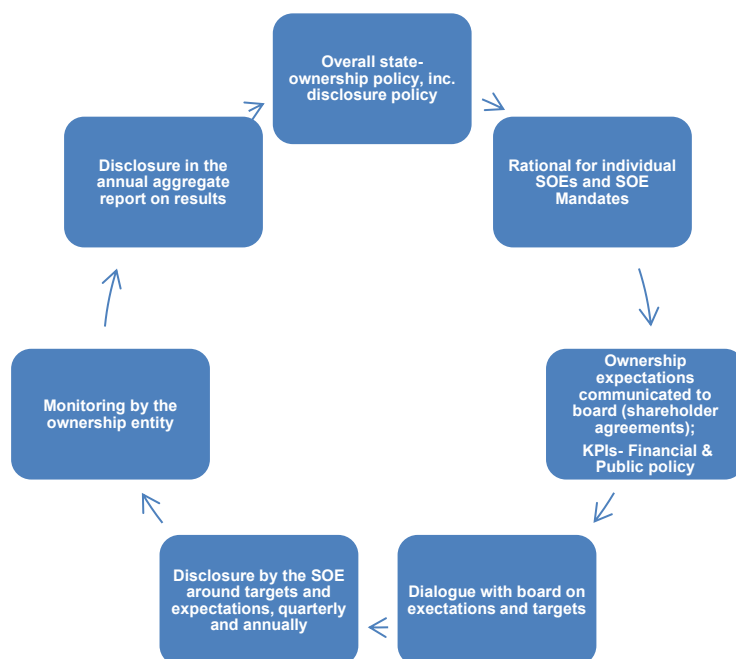
Some jurisdictions also disclose aspects of their disclosure policies in their annual aggregate reporting, to underline their active and informed ownership, as well as to demonstrate the linkages between performance outcomes, effective monitoring and enhanced transparency.

Setting and monitoring of SOE mandates and objectives

A second aspect to ensuring enhanced aggregate reporting, is to report on the processes and outcome related to setting and monitoring SOE mandates and objectives. This starts with defining and communicating broad mandates and objectives for fully state-owned SOEs.⁴ SOE mandates are concise documents that give a brief overview of an SOE's high-level long-term objectives, in line with the established rationale for state ownership in the enterprise (Infographic 2.2).

Infographic 2.2. Setting, tracking monitoring and communicating state ownership results

The cycle for reporting and disclosure, is informed first by a clear ownership policy, and rationales for individual SOEs. These are then translated into ownership expectations with key financial and public policy related objectives communicated to SOEs. Dialogue between the state owner and boards are necessary to track implementation. The ownership entity should ensure continued monitoring of results, including through quarterly and annual reporting by SOEs. The information should form the basis for analysis presented in the annual aggregate report.

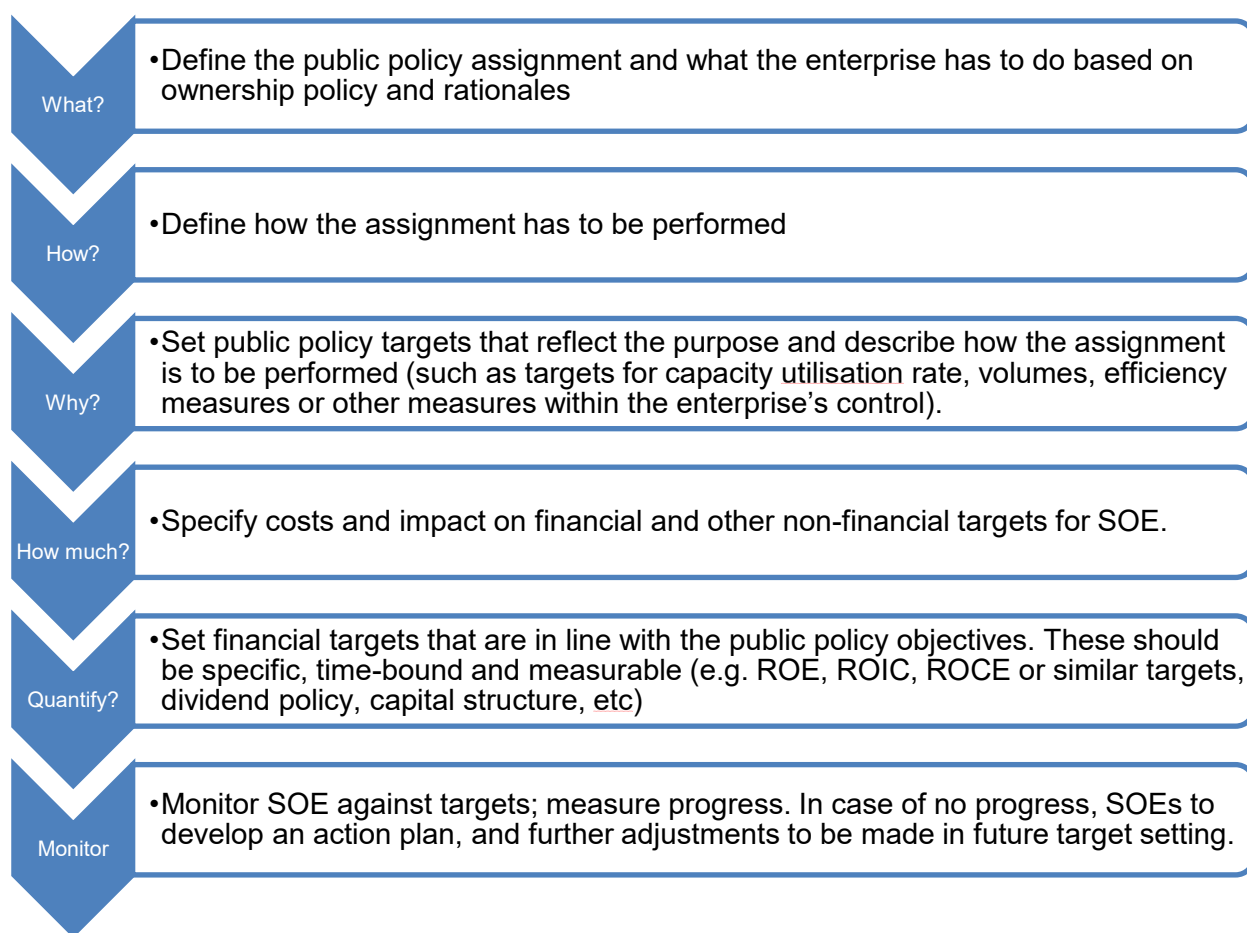


Source: Author.

⁴ Where the state is not the sole owner of an SOE, it is generally not in a position to formally “mandate” the fulfilment of specific objectives, but should rather communicate its expectations via the standard channels as a significant shareholder.

A mandate or clear ownership expectations will usually define the predominant activities to be carried out by a given SOE and give some indications regarding its main economic and, where relevant, public policy objectives. Such mandates also provide a framework to define and subsequently monitor the fulfilment of an SOE's more immediate-term objectives and targets. These mandates can in turn be translated into financial, operational and non-financial indicators/targets which should be specific, measurable and time-bound (Infographic 2.3). It is considered good practice to then report on the outcomes of SOEs meeting those targets in the annual aggregate report (see Infographic 5.5). While not all information will figure in the annual aggregate report, such a system of setting mandates can support more active and informed ownership and offer a more objective basis on which to report performance and portfolio outcomes. It can also support informed-decision making on the portfolio, informed dialogue with SOE boards on expectations and targets, and possible adjustments; and ensure effective monitoring and evaluation (see also Chapter 3).

Infographic 2.3. Setting, measuring and monitoring public policy targets



Source: Author based on Swedish example. (Government of Sweden, 2021^[12])

Setting up reporting systems to monitor audit and assess SOEs

A third and important area to raise transparency and disclosure, is to set up regular systems to monitor, audit and assess SOE performance and compliance with the disclosure policies. In order for the ownership entity to make informed decisions on key corporate matters and prepare its annual reporting, it should ensure that it receives all necessary and relevant information in a timely manner. The ownership entity should also establish means that make it possible to monitor SOEs' activity and performance on a continuous basis. One way to do this is through the establishment of adequate reporting systems. These reporting systems are usually internal, but can be used as a basis through which to compile information that is later incorporated into annual aggregate reporting, and even possibly fed into online data portals.

The reporting systems should give the ownership entity a true and fair picture of the SOE's performance or financial situation. Moreover, some of the data will be important inputs for the ownership entity, in turn, to develop appropriate methodologies to calculate portfolio valuation, and other metrics that will ultimately feed into the annual aggregate report. Such metrics should also allow to monitor SOEs' performance based on their established objectives and targets (as elaborated above). It could be useful to benchmark SOE's financial and non-financial performance, with private or public sector entities, both domestically and abroad. Some of these benchmarks might be useful to cite in the annual aggregate report to allow readers to better assess SOE performance and reflect on their development.

Maintaining dialogue with internal and external auditors and state control organs

Effective monitoring of SOE performance can be facilitated by having adequate accounting and audit competencies within the ownership entity to ensure appropriate communication with relevant counterparts, both with SOEs' financial services, its internal audit function and specific state controllers. When appropriate and permitted by the legal system, it is also useful (in the case of wholly-state owned enterprises) to communicate with the external auditors. This dialogue could take the form of regular exchange of information, meetings or discussions when specific problems occur. External auditors will provide the ownership entity with an external, independent and qualified view on the SOE performance and financial situation. This insight can broaden the state-owner's overall understanding of the portfolio, which can also feed into specific considerations or disclosures that might be necessitated in the process of aggregating financial and non-financial reporting discussed in the next sections.⁵

⁵ However, continuous dialogue of the ownership entity with external auditors and state controllers should not be at the expense of the board's responsibility nor at the expense of privileged and confidential information.

3 What is aggregate reporting why is it important?

This chapter provides an overview of the rationale and purpose of aggregate reporting, making the business case as to why ownership entities should mainstream aggregate reporting. It also provides an overview of the types and format such a report can take.

What is aggregate reporting?

An aggregate report is a key tool for the state to act as an active and informed owner. It allows the ownership entity to deepen its understanding of state-owned enterprise (SOE) performance, ensuring that its role in exercise of ownership rights and governance of SOEs is carried out in a transparent and accountable manner.

While aggregate reporting has historically emerged from reporting on financial performance and value of the SOE portfolio, in many jurisdictions this exercise has widened focus to include disclosure on a range of other areas including performance related to key non-financial indicators bearing on environmental, social and governance aspects. Moreover, some of the best practice countries report on achievement of the state ownership policy and financial and non-financial targets set for individual companies. Where the ownership entity operates as an arm's length agency from a ministry or operates with its own budget, the aggregate report can also serve as a tool to report on the operational outcomes of ownership entity itself.

The aggregate report is commonly used as a key disclosure tool for the state ownership entity to be transparent to the public, the legislature and the media on its state-ownership portfolio. It is intended to complement and not duplicate existing reporting requirements to the legislature (e.g. annual reports where applicable). It should cover all or most SOEs and be developed in a way that allows readers to obtain a clear view of the overall performance and evolution of SOEs. Increasingly, there is an emerging consensus

that the focus should not be purely on financial outcomes and reporting but also non-financial disclosure, discussed in detail under Chapter 5. The 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 including any notable evolutions and financial transactions (budget appropriations, equity)
- Portfolio performance and performance of individual companies
- Aggregate financial performance of the entire SOE sector (or the most economically important SOEs) including key financial indicators in terms of the performance of the portfolio from the state-owner's perspective
- Non-financial information bearing on environmental, social and governance practices
- General statement on the ownership policy and its implementation
- Updates on recent developments related to the portfolio (relevant legislation)

The aggregate report can be a useful tool to communicate these outcomes to various stakeholders, ranging from the legislature, state audit institutions, and the public. It is also a tool through which the ownership entity can engage with stakeholders and build on stakeholder relations, including the general public. There is no one-size fits all approach and national practices vary from jurisdiction to jurisdiction. The aggregate report can take the form of (1) an annual narrative report with both financial and non-financial information, (2) an online inventory of financial (and non-financial) indicators, or (3) *ad hoc* or regular reports to the parliament that fulfil the same accountability and transparency function as a “classic” aggregate report. Further details on different types of aggregate reporting are elaborated below (Table 3.1).

Narrative aggregate report covering financial and non-financial information

Narrative aggregate reporting varies considerably from one jurisdiction to another. It should complement financial information, to give the full picture of the SOE portfolio as well as demonstrate the role of the state as an active and professional owner. The narrative report is not intended to be a compliance-driven report, and there is increasing demand to better explain qualitative aspects related to ownership practices. The advantage of a narrative aggregate report is that it can give the “bigger picture” on critical contextual and non-financial information that is reported alongside financial information so as to provide a broader more meaningful understanding of the SOE sector for the public and stakeholders. At the same time, the report should be comparable, concise and accessible enough to give the broad public understanding of the key issues.

Online inventory

Digital technologies allow governments to bring together information in easy-to-access government portals. The scope and nature of online inventories vary from one jurisdiction to another, but they tend to be focused on financial information and quantitative data on the SOE sector rather than providing an assessment and evolution of the achievement of state-ownership objectives. The advantage of an online inventory is that it can regroup information from disparate sources and can be regularly updated to ensure timely information. More sophisticated portals have features that allow users to interact with the data, making it searchable and downloadable either in aggregate or disaggregate format (i.e. by sector, ownership entity or enterprise) – **Australia, Korea and Ukraine** are good examples of such online inventories. In other cases, the online inventory offers a broader overview with general data on the sector and distribution, employment data, board composition, and economic and financial indicators - such as **Brazil**. Best practice would be to couple the online inventory, based on robust data, and narrative annual aggregate report to ensure the accompanying analysis gives the “bigger picture” on critical contextual information.

Ad hoc or regular reports to the parliament

As mentioned earlier, some jurisdictions report on a regular or *ad hoc* basis to relevant representative bodies on the performance of SOEs. These types of reports take various forms and can serve to inform the parliament and the public about the achievements, performance and financial position of SOEs at the end of each reporting year. Although they are not always presented in the same format as an annual aggregate report, with the audience being primarily representative bodies responsible for ensuring accountability of the ownership function, they can still be a valuable source of transparency, information disclosure and accountability. Such types of reports can be a useful starting point to developing more sophisticated forms of annual aggregate reporting described in sections below.

Table 3.1. Examples of aggregate reporting types by country and ownership model

Type of report	Economy	Ownership model	Reporting entity	Latest available report
Aggregate Report (full or partial)	Brazil	Twin-track/Dual	Ministry of Economy, SEST	Relatório Agregado das Empresas Estatais Federais 2020 & Panorama (online inventory)
	Bulgaria	Coordination agency	Public Enterprises and Control Agency	Annual Summary Report 2019
	Colombia	Centralised (subset of portfolio)	Ministry of Finance	Reporte Annual de Empresas de la Nacion 2018
	Costa Rica	Coordination agency	Presidential Advisory Unit for SOE oversight	Reporte agregado sobre el conjunto de empresas propiedad del Estado 2020
	Chile	Centralised (subset of portfolio)	Sistema de Empresas	Memoria Anual
	Croatia	Decentralised (subset of portfolio)	Ministry of Physical Planning, Construction and State Assets	Annual report for legal entities of special interest for the Republic of Croatia
	Estonia	Twin track/Dual	Ministry of Finance	Riigi osalusega äriühingute ja sihtasutuste 2018
	Finland	Centralised	Ownership Steering Department (Prime Minister's Office)	Report on State Annual Accounts 2020
	France	Centralised (subset of portfolio)	Government Shareholder Agency	Rapport d'Activité 2020
	Germany	Decentralised	Ministry of Finance	Beteiligungsbericht des Bundes 2019
	Ireland	Centralised (subset of portfolio)	New Economy and Recovery Authority (NewERA)	NewERA Annual Financial Review 2018/19
	Israel	Centralised	Government Companies Authority	GCA Activity Report 2019
	Japan	Decentralised	Ministry of Finance	[No link provided]
	Latvia	Coordination agency	Cross-Sectoral Coordination Centre (CSCC)	Public Report on the State-Owned and Municipalities-Owned Enterprises and Shares in 2019
	Lithuania	Coordination agency	Governance Coordination Centre (GCC)	Annual SOE Report 2019/20
	Netherlands	Centralised (subset of portfolio)	Ministry of Finance	Jaarverslag Beheer Staatsdeelnemingen 2019
	Norway	Centralised (with exception)	Ministry of Trade, Industry and Fisheries	State ownership report 2020
	Philippines	Coordination agency	GOCC	Integrated Corporate Reporting System Web Portal 2018 Annual Report
	Poland	Decentralised	Ministry of Entrepreneurship and Technology	Raporty roczne o stanie portfela spółek 2018
	Sweden	Centralised	Ministry of Enterprise and Innovation	Annual report for SOEs 2020
Switzerland	Twin-track/Dual	Federal Council	Rapports succincts du Conseil fédéral 2019	

Type of report	Economy	Ownership model	Reporting entity	Latest available report
Online Inventory	Turkey	Twin-track/Dual	Ministry of Treasury and Finance	2019 Annual Ownership Report for SOEs
	Australia	Dual	Department of Finance	Transparency Portal
	Korea	Centralised	Ministry of Finance	All Public Information In-One (ALIO)
	Ukraine	Decentralised	Ministry of Economy	ProZvit
Ad hoc reporting to parliament	Argentina	Decentralised	Presidency/Ministry of Treasury	Carta de Jefatura de Gabinete 2017
	Greece	Centralised (subset of portfolio)	Ministry of Finance Hellenic Corporation of Assets and Participations	HCAP Annual Financial Report (2019)
	Italy	Centralised	State Court of Auditors	[No link provided]
	Slovak Republic	Decentralised	Ministry of Finance	<i>General Annual Report of Slovak Republic (government accounts)</i> [No link provided]

Note: Based on self-reporting by the ownership entity.

Source: (OECD, 2020^[2]) (OECD, 2018^[13]) (OECD, 2020^[3]) and author based on desk research.

Some aggregate reports cover the full scope of the portfolio whereas others may cover a sub-set of the portfolio and their level of detail and comprehensiveness will differ. This will generally be dependent on current ownership arrangements, the size of the portfolio and the ability of the reporting entity to gather relevant sources of information across government departments and individual SOEs. For countries with large SOE sectors and decentralised ownership arrangements, information collection may require more time and effort and should involve some degree of whole-of-government coordination. For example, **Finland, Latvia and Lithuania's** respective ownership coordination agencies serve as a focal points for the development of the aggregate report and have the requisite legal mandate and competence to collect and aggregate information. Where such coordination functions are lacking, the Ministry of Finance or Treasury (**Estonia, Germany, Argentina, and Slovak Republic**) can be a good place to begin data collection insofar as data is already collected on the SOE portfolio for budget-related issues. In a few cases, the state audit function issues an annual report to Parliament. In **Italy**, for example, the State Court of Auditors issues annual reports on the management of SOEs which can be complemented by updated studies from the Ministry of Economy and Finance (in its role as shareholder) for economically important SOEs. In **Greece**, where the portfolio is split between the state-holding company (HCAP) and the Ministry of Finance, there are two sets of reporting with differing coverage. Notably, as a corporatised holding company, the HCAP publishes annual consolidated audited financial statements, which are presented together with non-financial reporting on SOE operations, ownership and corporate governance practices. Whereas, the Ministry of Finance aggregate report is submitted to Parliament as part of the budget process.

Regardless of the ownership arrangements, it is generally good practice for the government to have a one-stop-shop government portal which gives access to information on the SOE sector. This page can include a link to recent and past annual aggregate reports, relevant policy documents related to ownership and corporate governance, an on-line inventory, as well as links to redirect users towards individual SOEs' webpages. For example, **Australia's Transparency Portal** and the **Philippine's Integrated Corporate Reporting System** allows for one-stop-shop access to entities annual reports and enables selected data to be compared and analysed. Regrouping information – along the lines established by **Ukraine's ProZvit** platform – will be particularly important for decentralised ownership entities, where information is often dispersed across various government, ministry and SOEs' websites.

While there is no one-size-fits-all approach to aggregate reporting (Box 3.1), the outcome should lend itself to fulfilling the policy goals set out in the following sections.

Box 3.1. Benefits and evolution of annual aggregate reports: Case examples

Finland

“The Prime Minister’s Office has published their annual reports for the last year five years, which is annexed to the Government’s annual state accounts report to Parliament. Stakeholders find it necessary to evaluate the performance of the total SOE portfolio. The key financial data is the main emphasis, with thematic coverage of topics to give the full picture. This year the focus included a review of Covid-19 implications and selected environmental, corporate and social responsibility issues for the current period. Going forward, the report will be developed further to provide wider and deeper information of the SOE portfolio for the stakeholders, especially in the areas of ESG for which information needs are increasing and will require special focus to evaluate performance both in SOE and at the portfolio level.”

Ireland

“The annual aggregate report has evolved over time and NewERA has sought to enhance the report, based on international best practice in ownership, which was the ambition of NewERA leadership. The annual aggregate report is seen as something valuable, with value adding information to bring together the complete picture for the major SOEs and is an important reference document for key stakeholders. It has been improved based on stakeholder feedback to address challenges in relation to the portfolio and the report seeks to bring out these aspects.”

The Netherlands

“The report has become more visual compared to previous versions, and is made more accessible. There is increased demand to cover a broader range of issues considered to be relevant by Parliament, such as international investment activities of SOEs, corporate social responsibility, or in areas where there is a broader government policy.”

Norway

“The format of the report has gradually developed, with coverage, scope and design improvements made over time. It is driven by a need for enhanced transparency, implementation of the SOE Guidelines and other best practices. The report has evolved to include aggregated reporting on the portfolio as a whole, for commercial as well as non-commercial companies.”

Turkey

“The annual aggregate report is a regular product Ministry of Treasury and Finance’s efforts to achieve higher standards of transparency and financial data disclosure of SOEs. The Ministry publishes the reports in order to ensure efficient and effective use of public funds, and to improve corporate governance in SOEs through enhanced accountability and transparency, as well also to operate within the framework of international corporate governance principles. The report has evolved over time to include a broader portfolio coverage, key ownership entities and their roles in the SOE system and progress on implementation of corporate governance principles regarding SOEs. This has been implemented further to feedback received from international community and further to the Ministry’s quest to improve the Report.”

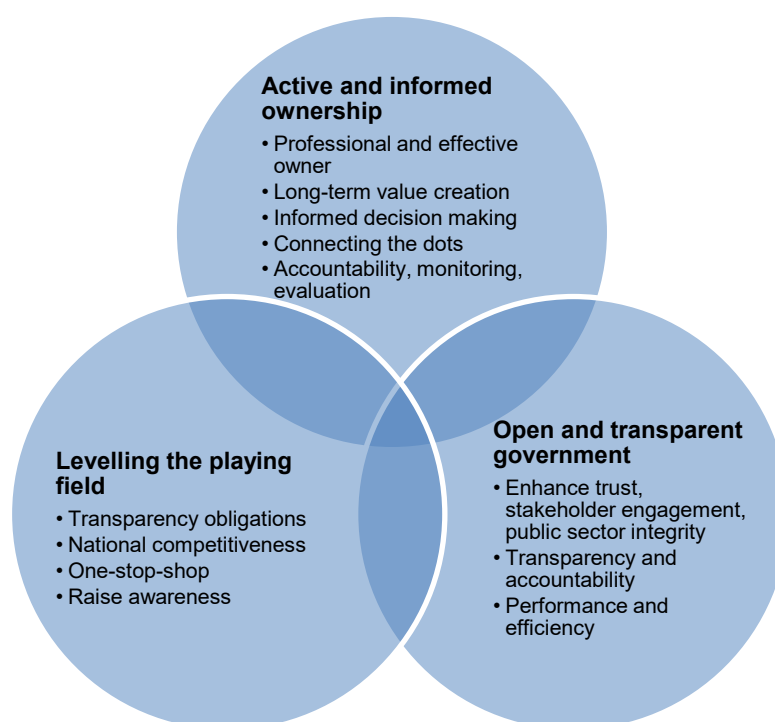
Source: Paraphrased from interviews or information made available in annual aggregate reports.

Why is it important?

Ensuring high quality transparency and accountability is the very basis of sound corporate and public governance. The narrative annual aggregate report allows the ownership entity to speak to a broad audience on its results as a steward of government assets. It can communicate how it has been effective in serving the best interests of taxpayers, stakeholders and their affected communities. By presenting information in a narrative format, this can support readers' understanding of the organisation of the ownership function, and make interconnections between various government policies and strategies which have a material effect on ownership's entity ability to create value over time. Increasingly, annual aggregate reporting has moved away from purely "compliance" reporting to presenting a holistic and complete picture of state ownership practices, summarised in a clear, concise, and comparable way. Reporting can serve to present the material information about the ownership policy, and with increased focus on governance as well as portfolio performance on commercial, social and environmental issues. Thus reporting is not only serving the purpose of updating on past performance but also offering a long-term perspective of future value generation. The information should allow for shareholders to evaluate how well their expectations as stated in ownership policies have been implemented. The supporting analysis and conclusions drawn are important to ensure SOEs are indeed being run in taxpayers' best interests.

Infographic 3.1. Annual Aggregate Reporting: The Business Case

The Business Case



Source: Author.

Annual aggregate reporting can support the following policy goals: (1) active and informed ownership; (2) open and transparent government; and (3) levelling the playing field (Infographic 3.1). These aspects are described further below.

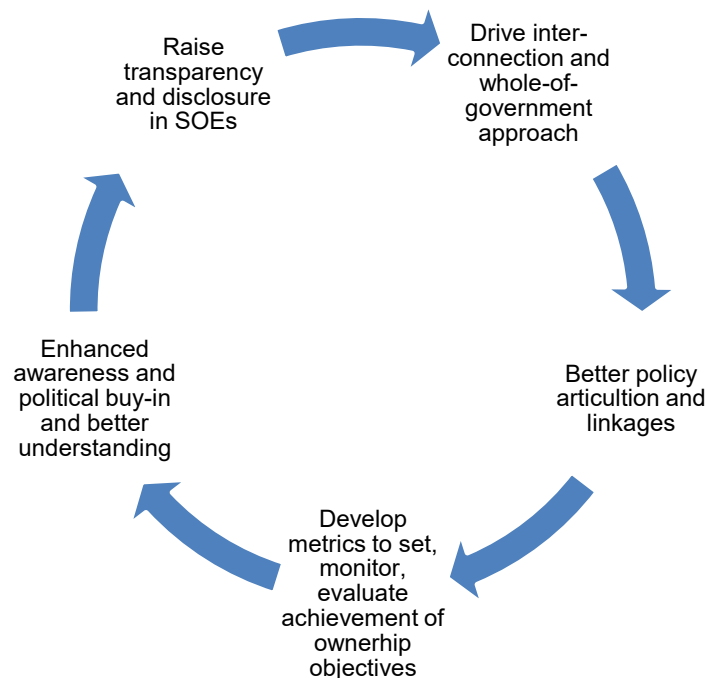
Active and informed owner

The aggregate report can enable the government to be a more professional and effective owner; ensure the ownership entity is held accountable to relevant representative bodies and the public; and enable Parliament/legislature to effectively evaluate performance of state-owned portfolio and the state owner as steward of those assets, and to make informed decisions. Some of the benefits of aggregate reporting with regard to “active and informed” ownership are described below.

Many ownership entities report the underlying process necessary to produce the aggregate report has helped enhance ownership effectiveness and improve governance. Aggregate reporting can drive change in terms of allowing further inter-connection between various government departments and ownership entities (especially if not centralised) which can create support over time for increased scope and coverage of reporting. By creating an enhanced awareness within public administration on the benefits of transparency and disclosure more broad political buy in can be sought across government towards driving policy. Reporting serve to bring together whole-of-government values and approaches (especially in decentralised ownership models where information can be siloed). Moreover, it can allow for the state to have a high-level understanding of its portfolio performance, link this up to its ownership policy and be able to develop metrics to set, monitor and evaluate achievement of ownership objectives. This in turn can feed into more robust performance management systems, and an incentive to continue to improve performance. (Infographic 3.2)

Infographic 3.2 Process of reporting can drive better governance and disclosure

Annual aggregate reporting can drive improvement in terms of organisational processes and lead to better disclosure outcomes.



Source: Author.

Aggregate reporting can also support higher standards of accountability in SOEs, thus contributing to improved efficiency and performance of SOEs and increased shareholder value. The SOE Guidelines (Guideline II.5) posit that it is the role of the state-owner to “develop a disclosure policy for SOEs that

identifies what information should be publicly disclosed, the appropriate channels for disclosure, and mechanisms for ensuring quality of information.” The process of developing the aggregate report can allow the ownership entity to shine light on its policy and work with individual SOEs to promote higher standards of transparency and disclosure. The information collection process can help to identify gaps in data availability, and address any possible shortcomings at the enterprise level which can be addressed through (as noted earlier) the development of guidance manuals and training seminars for SOEs; special initiatives such as performance awards that recognise individual SOEs for high quality disclosure practices; and mechanisms to measure, assess and report on implementation of disclosure requirements by SOEs.

For example in the **Netherlands** there the *Transparency Benchmark* which ranks large companies according to their level of transparency, SOEs are also part of this benchmark. In **Lithuania**, the *SOE Governance Index* ranks SOEs according their good governance practices. While relatively few jurisdictions report specific sanctions or penalties imposed on the ownership entities or SOEs for non-disclosure, **Korea’s** Ministry of Economy and Finance has used the ALIO (All Public Information in One) inventory system – to better incentive reporting by individual SOEs. It rates companies on their level of disclosure, identifying compliant companies as “Excellent”, and non-compliant companies as “Negligent” in the ALIO system for a period of 3 months, and may require SOEs to publish this rating on their website.

Open and transparent government

Public administrations around the world are moving towards more transparent and open government. This has been fuelled by freedom of information (FOI) acts, as well as open government and public sector transparency policies which have set the foundations for the publication of open government data (OECD, 2017_[14]). Enhanced disclosure by the ownership entity is consistent with “Open” government objectives which aims to be transparent, accessible to anyone, anytime, anywhere; and responsive to new ideas and demands.

Annual aggregate reports or online inventories of SOE portfolios can be considered to be a part of a broader shift to lead by example, aligning disclosure and dissemination procedures with modern information management and sound fiscal management practices. This has been motivated by governments moving towards enhancing trust, improving transparency and accountability, performance management, but also in the fight against corruption.

Enhancing trust and stakeholder relations/social engagement, and public sector integrity. Issuing the annual aggregate report can support enhanced trust and engagement with stakeholder communities, by speaking to shared values and addressing preoccupations and concerns of affected communities. It gives stakeholders the information they need to hold the state owner to account. Finally, enhanced transparency can be an effective tool to further strengthen public sector integrity.

Improving transparency and accountability. Open data tools promote the accessibility, availability and re-use of data in the fight against corruption and budget transparency, as well as broader public policy and decision making owing how and where public money is spent. This provides strong incentives for governments to demonstrate that they are using public resources effectively; making existing information easier to analyse, process and combine, allowing for a new level of public scrutiny. This information in turn can be used by public oversight bodies for effective oversight to ensure value for money and, where necessitated, to audit the use of state resources. In some countries, the improvement of the annual aggregate reports have emerged from specific information requests from supreme audit institutions.

Government performance and efficiency. Aggregate reporting can help increase government performance by enabling decision-makers to design better and articulate policies; to embed new performance indicators in policymaking, which in turn can help incentivize better performance.

Sound fiscal management. The collection of high quality data from SOEs and in turn from ownership entities is also key for governments to maintain good fiscal management and to have informed dialogue

on individual SOEs' capital structure allocation. High-quality financial reports are essential to ensure that government's fiscal decisions are based on the most up-to-date and accurate understanding of SOEs' financial position –especially where the SOE operate in strategic sectors, where SOE employment is substantial, or are deemed “to big/important to fail”. In particular, the monitoring of fiscal risks is important should SOEs financial position be explicitly or implicitly guaranteed by the state, if there are a high level of contingent liabilities (e.g. pension or employment liabilities), and/or where SOEs are subject to soft budget constraints. Transparent reporting on fiscal risks emanating from the SOE portfolio are important for legislators, auditors and the public at large hold governments accountable for financial performance of SOEs. Finally, reporting on these areas are a critical source of information for markets and other stakeholders to understand the government's financial operations and their implications for their own economic decisions. (OECD, 2017^[15])

Levelling the playing field

Enhanced transparency and disclosure is also key to ensuring a level playing field. It ensures that other market actors and regulatory authorities can objectively assess SOEs' business and governance practices based on a broad range of criteria. It can have an impact on national competitiveness, and ensures better information access for would be competitors as well as the media.

Meet transparency obligations set forth in international and multilateral agreements. Recent trends in international treaties highlight the need for continued emphasis on transparency and disclosure by state-owned enterprises and their owners. Recent approaches have focused on the need to enhance availability 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 – of which figure prominently in the aggregate report. Using the aggregate report as a disclosure tool can facilitate national and international regulatory processes to ensure fair information discovery and level the playing field.

Enhance competitiveness. Enhanced transparency has further economic benefits for the business sector by providing material information relevant to the business environment of a specific country which can strengthen investment decisions, and allow would be competitors to assess risks and opportunities in a specific market or sector. The aggregate report can allow market participants and the public (including taxpayers) one-stop-shop access to relevant, timely and cost-effective information on the SOE sector. By providing the public with access information, this can allow media or other stakeholders raise awareness on SOE performance and efficiency.

4

Getting started - How, Who and When?

This chapter will share different national experiences that have led to the practice of developing aggregate reporting, good practices in accountability, an overview of the institutions involved, as well as typical reporting timelines.

How?

Recommendation II.E. of the OECD Guidelines on Corporate Governance of State-Owned Enterprises (the “SOE Guidelines”), state: “*The ownership entity should be held accountable to the relevant representative bodies and have clearly defined relationship with relevant public bodies, including the state audit representatives.*” Accountability may also extend to the supreme audit institution, if mandated, to periodically audit the state’s exercise of ownership functions. These accountability requirements often call upon the ownership entity to report on the economic situation of majority owned SOEs (reporting on minority owned SOEs is also included in some jurisdictions), and the ability of SOEs to achieve financial and non-financial objectives set out by the state, among other areas further elaborated under Chapter 2. In many cases additional information on the budget, staffing and governance (as applicable) of the ownership entity itself are relevant.

Often, this kind of accountability report to the legislature (or other representative body) can serve as a basis from which to develop a publicly available report that is accessible to the public, as further discussed. The SOE Guidelines consider that such a report should be available on an annual basis, which would reflect performance and outcomes from the previous financial year.

Aggregate reporting has evolved from very different institutional arrangements and requirements across jurisdictions. For example, in some jurisdictions, the annual aggregate report is derived from a legal

requirement by the ownership entity to report to Parliament on its activities. However, other jurisdictions have implemented the aggregate report as a purely governmental decision to increase transparency and to align with open government initiatives.

As noted in Box 4.1, in a small sample of jurisdictions the annual aggregate report is derived from a pre-existing accountability mechanism of the ownership entity towards the legislative body or relevant representative body. The accountability requirements laid out in different legal requirements are often, but not exclusively, linked to overall government budget processes (**Finland, France, and Slovak Republic**). In **France**, for example, the annual aggregate report of the Shareholding Agency is included as part of the Government's draft budget law presented to Parliament for approval for the following budget year. Similarly, in **Finland**, the annual aggregate report is one of four annexes submitted to Parliament on State annual accounts, which reports on the management of government finances and compliance with the budget including measures taken by the Government in response to the resolutions passed by Parliament. In **Bulgaria**, there is a legislative requirement for the Public Enterprises and Control Agency to present an annual report to the Council of Ministers, which in turn reports to the National Assembly. In **Estonia**, the annual report is presented to the Parliament and the National Audit Office at the same time it is made public. In **Switzerland**, the Federal Council is required by law to present an annual report to the Federal Assembly on the achievement of strategic objectives fixed with regard to SOEs. A brief report is presented to Parliament and made public, whereas a more detailed report (which is not made public) is presented to the relevant Parliamentary oversight committees. In **Sweden**, since 1981 there is a report to Parliament which is received by the relevant Parliamentary committee which can make public its position and could instruct government to undertake certain actions. The annual aggregate report is annexed to the report sent to Parliament.

In other contexts, the annual aggregate reports have emerged out of accountability requirements, but with no explicit legal requirement to produce an annual aggregate report. For example in **Ireland**, the New Economy and Recovery Authority (NewERA), as a shareholding authority, is required to report annually for internal purposes on the financial performance of individual entities, however the annual aggregate report emerged from an aspiration to meet best practices, including those promoted by the SOE Guidelines. In the **Netherlands**, the Minister of Finance presents the SOE aggregate report to the House of Representatives annually. This is not based on a legal obligation. Rather, the reporting evolved into a procedure which the Ministry has continued to reproduce as a measure of good practice and is in line with the promises that have been made to the House of Representatives in the past. In **Costa Rica**, the aggregate report is presented to the Council of Ministers on an annual basis, although it is not anchored in any legislative requirement. In **Norway**, the state's ownership policy is renewed each parliamentary session (roughly every four years), and the policy includes the practice of issuing an annual report. However, there is no legal requirement and the actual practice of developing an annual report emerged out of a broader government policy to enhance transparency.

Box 4.1. Inception of annual aggregate reports: Case examples

Bulgaria

The Law on Public Enterprises foresees the publication of an annual aggregate report on SOEs to be carried out by the Public Enterprises and Control Agency. The Law stipulates that the Agency for Public Enterprises and Investments shall be responsible for the preparation of the Annual Aggregated Report. By law, the Agency must submit the Aggregated Report for the respective year to the Council of Ministers for approval by 31 October of the following year. The Council of Ministers shall submit the Aggregated Report to the National Assembly within one month of its approval.

Latvia

While Latvia published its first annual aggregate report in 2009, this was only a one-off exercise. After the adoption of the 2014 Public Persons Enterprises and Capital Shares Governance Law, the practice became among statutory requirements for the newly established Corporate Governance Unit at the Cross Sectoral Coordination Centre which is responsible for monitoring the performance of Latvia's SOE and counselling the Cabinet and shareholder ministries and institutions on SOE management and corporate governance. Art. 22 of the law sets forth, among a list of tasks for the Coordination unit is to coordinate the publication of information on the SOE sector and preparing an annual aggregate report on the SOE sector.

Ireland

The report was externally published for the first time at the end of 2016, five years after New ERA was established. While establishing legislation for NewERA requires annual reporting to shareholding Ministers on the financial performance of individual entities, there is no obligation to prepare the annual aggregate report. Rather this emerged from an aspiration to meet international best practices and add value for the State as owner of these SOEs.

The Netherlands

The Minister of Finance presents the Ministry's general policy objectives and financial estimates annually to the House of Representatives. There is no legal obligation for the aggregated annual report on SOEs to be presented. Rather, the reporting practice emerged from this policy and evolved into something more comprehensive which the Ministry continued to reproduce as a measure of good practice and in line with promises made to the House of Representatives.

Norway

The Ministry of Trade, Industry and Fisheries began publishing annual aggregate reporting in 2003, two years after the establishment of a centralised ownership entity. The development of the annual aggregate report was self-motivated, not mandated as a requirement. Rather it emerged from the premise that transparency is part of being a professional owner. It is worth noting that a new ownership policy is presented in each parliamentary session. The ownership policy cross-references the annual aggregate report. Thus, while there is no legal requirement there is a general expectation that it will be published.

Turkey

The Ministry of Treasury and Finance began publishing annual aggregate reporting as of 2007. The reporting did not emerge out of a legal mandate, but followed from implementation of the OECD SOE

Guidelines which did not require any changes in legislation. To anchor the process, there is a Presidential Decree signed every year mandating the Treasury to publish the report annually.

Prior to producing annual reporting the Treasury published information on a quarterly basis on the financial situation of the portfolio.

Source: Author based on country self-reporting and (OECD, 2015^[16]) (OECD, 2020^[17]) (OECD, 2019^[18])

Who?

As mentioned earlier, strengthened ownership arrangements (either through policy co-ordination or through centralisation of the ownership function) have often been a pre-requisite for the development of aggregate reporting. For example, **Norway** began annual reporting two years after it had established an ownership department in the Ministry of Trade, Industry and Fisheries. National experiences with the institutional arrangements for aggregate reporting will differ largely on the extent to which there has been a centralisation or co-ordination of the ownership function. In **Lithuania**, where ownership responsibilities are coordinated, Transparency Guidelines establish the process and schedule leading up to the publication, which also identifies the coordinating unit responsible for preparing the report. (Box 4.2)

Clarifying the appropriate institutional frameworks can ensure that the responsible government entity that is spearheading the drafting of the report is empowered to collect information that goes into it. This will rely on the responsible entity having access to the requisite information, which may not always be clear cut when ownership is fully decentralised, and if information on the SOE portfolio is dispersed across different line ministries exercising ownership rights, agencies collecting information on national accounts, and the Ministry of Finance/Treasury for what concerns government budgeting, among others. Moreover, appropriate communication with relevant counterparts, such as SOEs' financial services, its internal audit function and specific state controllers, among others, might be necessary to complete information gaps and clarify questions about individual SOE performance and potentially auditing/accounting standards. For listed companies, information can be gathered directly from public disclosure and third-party data providers.

Box 4.2. Information gathering through coordinated ownership: Case example from Lithuania

In Lithuania ownership responsibilities are coordinated by the Governance Coordination Centre (GCC), which is established as an authority designated to monitor and analyse the implementation of the Ownership Guidelines by state ownership entities. It is mandated by Government to implement the Transparency Guidelines, which establish disclosure guidelines for individual SOEs, as well as for the GCC in terms of annual aggregate report. The Guidelines establish the process and schedule leading up to the publication of the aggregate reports, including the respective roles of SOEs, state ownership entities and the GCC. SOEs are notably required to submit their annual and quarterly reports and financial statements to the relevant state ownership entities according to a pre-determined timeline. Ownership entities then must submit the information to the GCC, within three working days of the deadline for receiving the information from SOEs. The GCC is then mandated to draft and publish on its website annual and quarterly summary reports on SOEs, including information on SOEs' compliance with the provisions of the Transparency Guidelines.

Source: (OECD, 2015^[19])

Good reporting and corporate governance also require significant institutional capacity and resources (Box 4.3). Building institutional capacities for data management inside public sector institutions is a key condition towards better and more comprehensive data. Effective monitoring of SOE sector will necessitate having, among other areas, adequate accounting and audit competencies within the ownership entity, such as persons with background in economics, business administration as well as knowledge in accounting, and the basics of financial theory. For non-financial reporting, input from strategy departments and thematic experts (e.g. on sustainability or diversity) may be required. Finally, the report is likely to be reviewed by senior leadership and (if relevant) in-house legal counsel to ensure alignment with reporting obligations (in case mandated by a legal requirement).

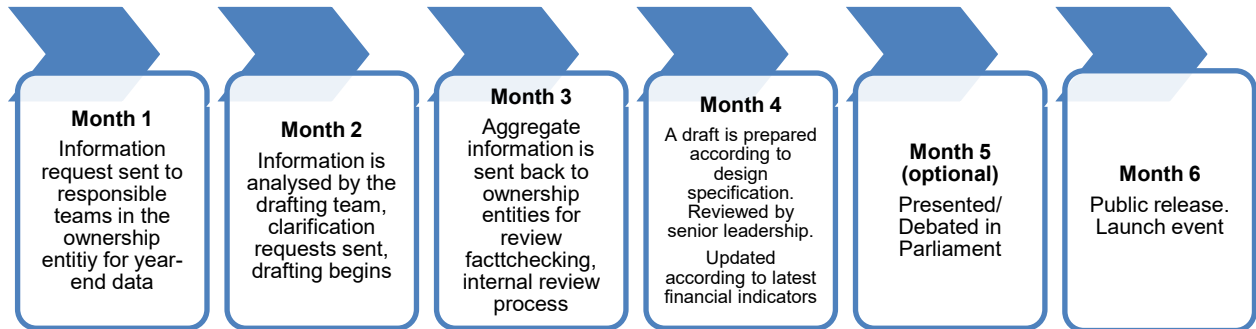
When?

The typical data collection cycle can last between four to six months depending on the timeline for financial reporting of the SOE portfolio, as well as internal review and publishing processes. If there are requirements set out in the law with regards to reporting requirements to relevant legislative bodies, this should be factored into the overall publication and dissemination timeline. The typical process is described in Infographic 4.1.

However, the timeline might vary from one jurisdiction to another based on a number of factors. In **Ireland**, for example, the annual aggregate report is typically published in Q4 every year as the financial reporting periods within the portfolio are split between two calendar years. Whereas in **Norway** or the **Netherlands**, where the financial year is the same as the calendar year, the annual aggregate report is typically published in June after the financial accounts of the majority of individual SOEs for the previous year have been approved by the respective shareholders meeting of the concerned SOE.

Infographic 4.1. Typical cycle for the development of the annual aggregate

The annual aggregate report will be dependent on the financial year of reporting entities, with a typical data collection cycle lasting between four to six months.



Source: Author

Box 4.3. Institutional framework for annual aggregate reporting

Ireland

NewERA's annual aggregate report covers 15 SOEs and this is expected to increase in future reporting periods as NewERA's remit has recently been expanded. For the purposes of report preparation, NewERA directly engages with the individual entities initially to coordinate financial information confirmations based on prepared spreadsheets covering the financial reporting period as well as the 5-year historical information. NewERA subsequently engages with the individual entities on any report commentary related to those entities.

The Netherlands

Data collection is gathered both from account teams and expert teams. The account teams are in direct contact with individual SOEs and they coordinate information requests based on prepared spreadsheets. The expert teams write policy sections of the report (i.e. sections about corporate strategies and investments). The annual report team collects inputs from both teams, which is collated and sent to a designer. The final draft is reviewed by concerned teams at different levels and the management team. The individuals working on the report have different backgrounds and skills (e.g. relating to economics, business administration, legal and government administration).

Norway

The annual report is made by the ownership department in the Ministry of Trade, Industry and Fisheries (MTIF) and covers the Norwegian state's entire portfolio of SOEs, which are divided across twelve ministries in total. The information collection is based on standardized spreadsheets and templates. All ministries are in direct contact with the individual SOEs to gather input in line with the information requested. For listed companies, some of the financial information is gathered from a third party data provider. The MTIF's experts on various policy areas are solicited for input to draft sections of the report which cover areas such as governance, sustainability, diversity, and how the state exercises its ownership (the ownership policy and practices), etc.

Turkey

The compilation of the report is overseen by the General Director responsible for Coordination in the Treasury. The main quantitative inputs are gathered from the Annual Programming and Budget Department, which aggregates the data and budget tables for inclusion in the report. The draft is compiled with inputs from 6-7 relevant departments responsible for data collection, forecasting and monitoring. Each department updates data from previous years and contributes any new developments, which they collect from individual SOEs. The Privatisation Administration also provides inputs for what concerns the separate portfolio under their oversight. Once the report is drafted it is sent back to relevant departments for comments, before it is presented to the Treasury senior leadership for final inputs. The finalised report is sent to the Office of the Minister for sign off.

Source: Interviews with ownership entities.

5

Content and coverage of the aggregate report

This chapter explores the main trends in coverage and content of annual reporting, and goes into detail of the three main pillars of the aggregate report, namely, reporting on the ownership policy and ownership practices, financial reporting and non-financial reporting. Good practice calls for aggregate reports to include information on key financial indicators related to the portfolio, in addition to assessing the achievement of state-ownership objectives, the composition and qualifications of state-owned enterprises boards of directors and detailed reporting on individual state-owned enterprises. Increasingly thematic coverage of environmental, social and governance issues figure in the annual report.

OECD Guidelines on Corporate Governance of State-Owned Enterprises (the “SOE Guidelines”)

The annotations to Recommendation VI.C of the SOE Guidelines state: “The aggregate report should primarily focus on financial performance and the value of the state-owned enterprises (SOEs), but should also include information on performance related to key non-financial indicators. It should at least provide an indication of the total value of the state’s portfolio. It should also include a general statement on the state’s ownership policy and information on how the state has implemented this policy. Information on the organisation of the ownership function should also be provided, as well as an overview of the evolution of

SOEs, aggregate financial information and reporting on changes in SOEs' boards. The aggregate report should provide key financial indicators including turnover, profit, cash flow from operating activities, gross investment, return on equity, equity/asset ratio and dividends.”

The below sections outline recent trends and established practices; and go into detail about the content and coverage of each of the typical pillars of the aggregate report.

Recent trends and established practices

Most countries focus aggregate reporting primarily on portfolio size and sectorial distribution, aggregate financial performance and board composition. Increasingly, a larger number of those reports also provide information on individual SOEs. Some countries also report on key changes to the ownership policy, government policies on corporate governance issues, legislative reforms, privatisation activity, non-financial targets and include an activities report on the organisation and performance of the ownership entity itself (this is especially the case where the ownership entity is organised as an agency or has its own legal identity).

While there is no one way to produce an aggregate report, there is some degree of divergence as to what “belongs” in an aggregate report. As noted earlier, a handful of countries publish online inventories of their SOEs in a centralised one-stop-shop database, but do not offer narrative reporting. In about half of the country practices that have been documented, focus is primarily on value of the portfolio and basic financial indicators such as turnover. Whereas, best practice would call for coverage of key financial indicators such as return on equity and equity/assets ratio, dividend policy, achievement of public policy objectives, among other areas, which would allow readers to measure the performance of individual companies and the broader portfolio.

A number of reports also cover non-financial disclosure on issues relating to sustainable business practices, and risk management, considered to be of increasing important. Other areas of information range from aggregate figures on gender diversity in boards, to the remuneration policy for board and executives, as well as information on nomination and appointment practices (Figure 5.1). An emerging area of best practice is for the aggregate report to measure the fulfilment of individual SOEs against financial and non-financial targets set by the state-owner. 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. Finally, it is considered good practice for the ownership entity to report on implementation of the ownership policy.

The remainder of this Chapter will cover the main pillars of the aggregate report, namely, the (1) general introduction and overview, (2) financial reporting and (3) non-financial reporting as outlined below.

Table 5.1. Examples of aggregate reporting practices by country (Snapshot 2020)

	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	Budget support provided to SOEs
Argentina			○			○			
Brazil			●	○		●	●	●	
Chile			●	●	●	●			
Costa Rica		●	●	●	○	●	○	●	
Estonia		●	●	●	○	●	●		
Finland	●	●	●	●	●	●	●	●	●
France	●	●	●	●	●	●	●	●	
Germany		○	●	○	●	●	●	●	●
Iceland						●		●	
Israel			●			●		●	
Ireland			●	●	●	●	●	●	
Korea				○	○		●	●	
Latvia	●	●	●	●	○	●	●	●	●
Lithuania	●	●	●	●	●	●	●	●	
Netherlands		●	●	●	●	●	●	●	
Norway	●	●	●	●	●	○	●	●	●
Poland		●	○	○					
Slovak Republic		○	●		○	○	●		
Sweden	●	●	●	●	●	●	●	●	●
Switzerland	●	●	○	●	●	●	●	●	
Turkey	○	●	●	○	●	●	●	●	●

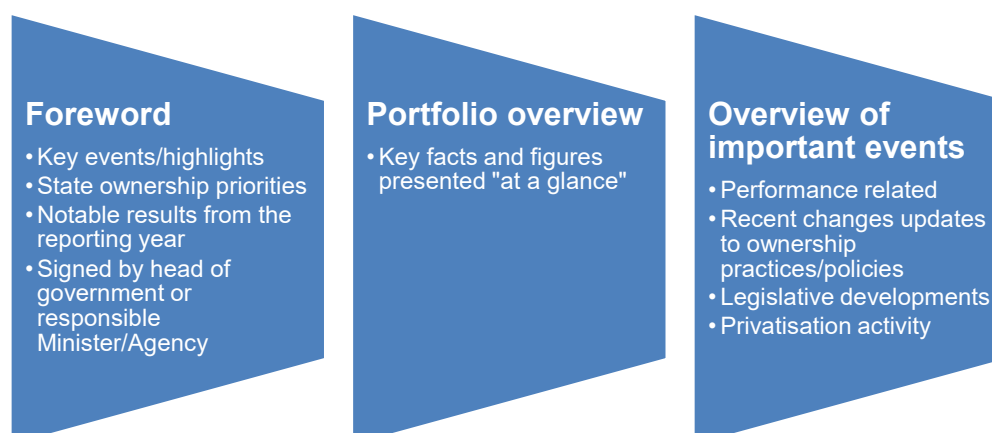
Note: Unfilled circle = partial implementation

Source: (OECD, 2020^[2]) self-reported and subject to further updates.

The report: General introduction and overview

It is good practice to integrate a general introduction (Foreword) and overview section to the annual aggregate report (Infographic 5.1). This can include a foreword by head of government, responsible minister or head of the responsible agency outlining the key events, priorities and results of the reporting year. Such a statement can serve to inform the reader of the political priorities underpinning state ownership practices, and reinforce the “active” role the state takes in its role as owner/shareholder. The introduction could also include a presentation of key highlights or significant portfolio developments during the previous financial year, which present the information in “at-a-glance” format. This could include relevant topical issues, for example references to the adoption of new laws, legislative changes relevant for the SOE sector; updates to the ownership policy, changes in ownership arrangements; and recent privatisation or divestment activity amongst other aspects.

Infographic 5.1. General introduction and overview: Scope and coverage



Source: Author.

The report: Financial reporting

As mentioned, aggregate reporting by ownership entities involves, to a varying degree of detail, information on the aggregate financial performance of the SOE sector. It should be noted that the ownership entity in aggregating information will be limited to the quality of financial and non-financial reporting provided by individual enterprises. Thus, as noted in Chapter 2, a key aspect of having a robust aggregate report is to ensure that SOEs are subject to internationally accepted accounting and auditing standards, that they have adequate internal controls and are subject independent external audit (with due regard to size and type of activities).

The degree and depth of financial reporting will vary to the extent to which the aggregate report is accompanied with a narrative report. For example, among reporting jurisdictions surveyed by OECD (OECD, 2020^[2]), a little over one-third provided the full range of information on key financial indicators on the aggregate performance of the state-owned sector and with regard to individual companies. As noted, some jurisdictions only publish financial reporting in the form of online inventories centralising financial information on the full or sub-set of the portfolio of companies. In aggregate reports that feature some narrative explanation, the coverage may be organised around two main areas (1) aggregate figures on the financial performance of the entire portfolio (or a sub-set thereof); and (2) key figures for individual SOEs/key sectors (Infographic 5.2). Best practice would have reporting to be available for three to five financial years which can help readers identify trends and developments. Information should be comparable across reporting years to allow for readers to gain an understanding of performance over time and can also address challenges and opportunities for individual SOEs which can add a "forward looking" perspective.

Aggregate figures on the overall portfolio

- SOE portfolio value, size, scope and sectorial distribution
- Financial performance indicators: Turnover, profit, cash flow, gross investment
- ROE, ROA ratios
- Dividends and budget appropriations
- Methodology for aggregating

Source: Author

Aggregate figures on the overall portfolio

Overview of the SOE portfolio value, scope, size and sectorial distribution

This section would offer “at a glance” analysis of the SOE portfolio value, scope, size and sectorial distribution. Importantly, a full list of companies which are included in the analysis should be provided, including the state’s ownership share. For the selected portfolio, financial reporting on operating revenue, employment, dividends and purchases by/subsidies from the public sector might be included. Figures on portfolio value can be split by sector to offer an overview of the relative importance of the state’s assets by sector. A presentation of total portfolio value over time with a three to five year horizon can show growth trends. Aggregate figures on the total dividends paid by SOEs to the state can be presented, together with total employment. For companies which are listed, share price performance of the state’s holdings should be included and benchmarked against the local stock market index or other relevant indices.

Some countries which may have a large proportion of enterprises that fulfil non-commercial objectives, or a mix of commercial and non-commercial objectives may consider splitting the analysis of the portfolio between these categories of companies and identify relevant metrics to measure performance relative to their level of commercial operations. For example, the **Norwegian** annual report splits analysis of companies according to the ownership policy, whereby enterprises are split into three categories (See Box 5.1).

Box 5.1. Presentation of aggregate figures by non-commercial vs commercial enterprises: Case example from Norway

For companies in Categories 1 and 2, the State's goal is the highest possible return over time. For the companies in Category 1, the State no longer has any rationale for its ownership, while for the companies in Category 2, the State has a special rationale for its ownership. A total of five companies are in Category 1 and 18 companies are in Category 2. There are listed companies in both categories.

For companies in Category 3, the State's goal is the most efficient possible attainment of public policy goals. The State's public policy goals vary from one company to the next. Information regarding the companies' goal attainment is provided on the company pages. Category 3 consists of 43 companies that do not primarily operate in competition with other companies.

Source: (Government of Norway, 2020^[20])

Basic aggregate financial performance of the entire SOE sector (or the most economically important SOEs) focusing on turnover, profit, cash flow from operating activities, gross investment

This section of the report might offer aggregate figures on basic financial performance of the entire SOE sector (or at least of the economically important SOEs). Financial indicators can include turnover (or net sales), as well as total profit of the portfolio, which can be further broken down to demonstrate the share of net profit of the top 5-10 enterprises (the exact range will depend on the overall size of the portfolio) (Table 5.2). Additional contextual information should be provided together with the data to explain the performance of the portfolio, which might explain increases or losses in profits for the portfolio and outlier companies which might have an important effect on the overall performance of the portfolio.

Table 5.2. Aggregate figures on the portfolio: Case example from Sweden (State-owned enterprises, total in SEK bn)

The Swedish annual aggregate report covers 46 SOEs, for which aggregated financial figures cover a broad range of indicators covered in the table below.

	2020	2019	2018	2017	2016
Net sales (incl.any appropriation)	362.9	371.4	348.8	324.2	321.1
Net sales incl. associates (incl. any appropriation)	402.0	411.4	380.7	354.6	353.1
Profit before changes in value	30.9	54.5	43.7	47.8	20.8
Changes in value	13.8	5.6	5.0	5.9	5.6
Operating profit (EBIT)	44.6	60.1	49.1	53.7	26.4
Profit before tax	41.8	56.6	44.9	47.6	20.1
Profit/loss after tax	28.8	46.6	38.9	38.3	-4.7
Gross investments	45.6	50.0	42.3	42.4	43.5
Cashflow from operating activities (excl. SEK and SBAB)	68.9	45.2	65.7	51.3	46.5
Total equity	430.1	383.0	361.3	342.3	312.9
Total assets	1825.0	1703.3	1637.0	1497.1	1469.0
Number of employees excl. Associates (thousands)	106	108	109	109	111
Number of employees incl. Associates (thousands)	135	140	134	130	137
Dividend	21.3	18.7	19.9	20.2	13.6
Estimated value	700	640	630	570	510
Return on equity(%)	7.0	12.6	11.1	12.0	-1.6
Equity/assets ratio(%)	23.6	22.5	22.1	22.9	21.3
Dividend yield(%)	3.1	2.9	3.2	3.6	2.8

Source: Excerpt from Annual report for state-owned enterprises 2020, page 7. (Government of Sweden, 2021^[12])

Some countries (e.g. **Sweden**) include figures on gross investments. Importantly, reporting entities should define the parameters for determining gross investment given differing definitions by sector. **Norway** includes figures on net cash flow from investments *and* operating activities for each individual SOE, as this may be more comparable across sectors. Similar considerations should be made in terms of presenting figures in aggregate on “cash flows of operating activities”. While some countries report in aggregate on this indicator, it is not a widespread trend. The inclusion of such indicators will depend in large part on the intended audience of the annual aggregate report.

Additional aggregate financial indicators on operational performance, such as: return on equity, equity/asset ratios and dividends

On key financial indicators three areas are of particular importance to highlight including: rate-of-return ratios, dividend pay-outs and net debt indicators. 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). Return on equity indicators are important to demonstrate how individual SOEs are creating value. Another financial indicator of particular importance for transparency purposes is the company’s dividend pay-out which can signal to market participants a company’s commercial orientations. An artificially low dividend rate can give SOEs an undue financial advantage compared with other market participants (refer to Annotations to III.D). It is also an important marker to show the important contributions SOEs can have to central government finances. The data may also be broken down further (under individual company profiles or in the overall figures) to show which individual companies generate the most dividends for the state. The figures can be represented as a total amount of dividends, and/or as a percentage, “dividend yield”. As for debt indicators, these can include either net debt over EBITA or similar figures which show how a company is capitalised. CAPEX indicators are useful to demonstrate a company’s level of investment.

Most annual aggregate reports cover SOEs’ financial performance drawing on the main financial indicators – which can indeed be an important marker for understanding the performance of the portfolio. However, few reports cover aspects related to fiscal risks to the state. If fiscal risks are material to understanding the broader portfolio performance, state-ownership entities might consider identifying the main sources of fiscal risks of the portfolio and adding some analysis of the main risk elements of the portfolio by sector or by enterprise (**Morocco**’s annual SOE report which is annexed to the Budget law is a good example). (IMF, 2021^[21])

Methodology for aggregate financial reporting

The methodology used for aggregating financial reporting should be provided, along with information regarding relevant accounting principles applied to financial reporting by individual SOEs, especially if the accounting standards differ across the portfolio; and if the level of the quality of disclosure also varies across the portfolio. The overall principle of the methodology should be based on providing a fair, clear and unified picture, in financial terms, of the SOE portfolio. The methodology might cover:

- Accounting principles used to consolidate financial information in aggregate (e.g. application of IFRS standards to consolidate financial information for the portfolio)
- Scope of coverage of portfolio enterprises in consolidated figures – this may also vary depending on how big the scope of enterprises are carrying out public service obligations.
- SOEs excluded from figures or partly counted (e.g. proportionate to the level of state participation), including exclusion of outliers
- Treatment of subsidiary companies of SOEs

- Explanations of differences between key financial indicators presented in the annual aggregate report with those presented by individual SOEs

A section covering “definitions” may be warranted to better explain the methodology used for different financial indicators (e.g. average gross remuneration, valuation; state budget contributions⁶). For example, for valuation calculations the methodology might go into time horizon for which valuation calculation is made (e.g. one or five year perspective), and the time at which the valuation is made (e.g. end of the financial or calendar year), the financial method used to arrive at the valuation figure (e.g. income approach, market value approach, or book equity value) as well as any other aspects that are material to understanding the figures. Any information such as recent events (e.g. economic or other crisis, fiscal risks) which may not be reflected in the figures but should be mentioned because they will have a material effect on the portfolio should also be reflected, if not measured (Box 5.2). As a general rule, the valuation should give a fair value of the portfolio. This may differ according to each enterprise according to its size and sector of operation. Most often these figures will be presented in aggregate format, which could be more commercially sensitive for individual companies.

As noted earlier, some countries may apply IFRS principles to consolidate, in aggregate, the financial figures presented in the annual aggregate report. In this regard, some ownership entities have turned to third party accountancies to support the development of their methodology to aggregate financial data. In general, when aggregating the financial information it might be useful to split the aggregate figures by groups of companies, especially if a non-trivial proportion of the portfolio carries out non-commercial objectives (See also Box 5.1. Presentation of aggregate figures by non-commercial vs commercial enterprises: Case example from Norway). Also, the methodology should take into consideration outliers of the portfolio whose results may drive the overall portfolio outcomes/results. Outliers might be separated out or addressed in the methodology for aggregation.

Box 5.2. Methodology for aggregation of valuation data: Case example from Sweden

A valuation of the enterprises and the portfolio as a whole is conducted annually, and value performance is presented here from a one-year and a five-year perspective. This valuation is made at the end of each year and is intended to establish a market value for the enterprises and the portfolio as a whole. In line with valuation practice, the valuation takes account of all the public information available at the time of the valuation. This means that the effects of the COVID-19 virus are not reflected in the financial forecasts that fed into the valuation and therefore do not affect the portfolio value on 31 December 2019.

Around half of the enterprises are valued on the basis of both the income approach (present value calculation of future risk-adjusted cash flows) and the market approach (relative valuation based on value multiples for comparable listed companies, adjusted for differences in value drivers and risk), with each method calibrated against the other. At the time of the valuation, the observable value multiples of listed comparison companies, which form the basis of the relative valuation, did not reflect the effects of the COVID-19 virus either. Property enterprises are valued at net asset value and listed companies at market value, in view of their real estate assets. Other enterprises are valued at the book value of equity. The valuation methodology should give a fair value of the portfolio.

Source: (Government of Sweden, 2021^[12])

⁶ For example, **Latvia** groups contributions paid to the state and local government budgets to include the balance of contributions of the difference between those paid to the state budget and reimburse from the state budget for all kinds for tax, social security or insurance contributions, as well as real estate taxes, and other taxes and fees paid, including dividends to the state budget.

Key figures for individual SOEs

Detailed reporting on individual SOEs' performance

For individual company profiles, the main financial figures on income, balance sheet, dividend and debt values, key financial figures such as capital employed, EBITA, return on equity (1 and 5 years), return on assets, equity ratio, investments, dividend pay-out, financial leverage, and other key figures such as number of employees and achievement on targets related to gender parity might be included in each enterprise profile (Infographic 5.3). The reporting standard (e.g. IFRS or other) applied to the financial reporting should be indicated. The information should lend itself to allow the reader to gauge key financial metrics regarding commercial and non-commercial orientations. For example, in **Ireland**, these metrics cover, *inter alia*, profitability (percent of return on invested capital), capital structure (net gearing percentage, excluding pension and employee liabilities, and historical five year averages) and dividends (expressed as a dividend pay-out percentage, and historical five year averages). For certain companies, where these metrics are not appropriate, alternative metrics are presented.

In addition, for each enterprise profile, accompanying narrative text providing information and context will be useful for the reader to obtain an understanding of the main activities of the company and its commercial/non-commercial objectives. This information might include, as per the **Norwegian** practice, a statement on the rationale (or not) for state ownership; attainment of state's objectives for the company, including percent of attainment of growth indicators; a short description of the company's activities; important events for the reporting year; and a brief explanation of the company's plan and strategy for sustainable value creation (the company's sustainable value creation agenda shows the board and the management's plan for how the company can create value over time.). In some other jurisdictions "fun facts" about the companies can be featured (e.g. the **Netherlands**, Figure 5.3), and in **Ireland**, for each entity, further aspects such as key opportunities and challenges are reported which focus on forward looking elements. Information can be grouped by sector or selection of economically most important SOEs if there is a large portfolio. In some cases, climate-related indicators may be reported, such as level of CO2 emissions of individual companies.

Additionally, SOE profiles may include the names of board members, the percent of share ownership by the state, the ownership ministry/entity, the name of the CEO, as well as the name of the external independent auditor. A web link for each enterprise should be provided.

Infographic 5.3 Detailed reporting on individual SOEs or by sector

Individual SOE/By sector

- SOE performance in reporting year
- 5 year historical period
- Company information
- Key activities and responsibilities
- Board composition
- Gender diversity
- Opportunities and challenges
- Climate related indicators (CO2 emissions)

Source: Author.

Infographic 5.4. SOE Information fact-sheet: Case example from the Netherlands

The Dutch Ministry of Finance circulates two key documents for input by individual SOEs, this includes an “SOE Factsheet” which is presented below and a standardised excel spreadsheet with key financial figures. These inputs are translated into company profiles which are featured in the annual aggregate report.

SOE description (80-100 words)

- Date of establishment
- Ownership entity
- Main activity
- Sectors in which active
- Main customers
- Number of employees

"Fun Fact"

- Interesting fact that the company can be proud of (position in the world market, number of flights, passengers, amount of energy transported, etc.)

Year in a nutshell (50-75 words)

- Short paragraph on realised efforts in specific year. Could consist of some key financial indicators or large investments.

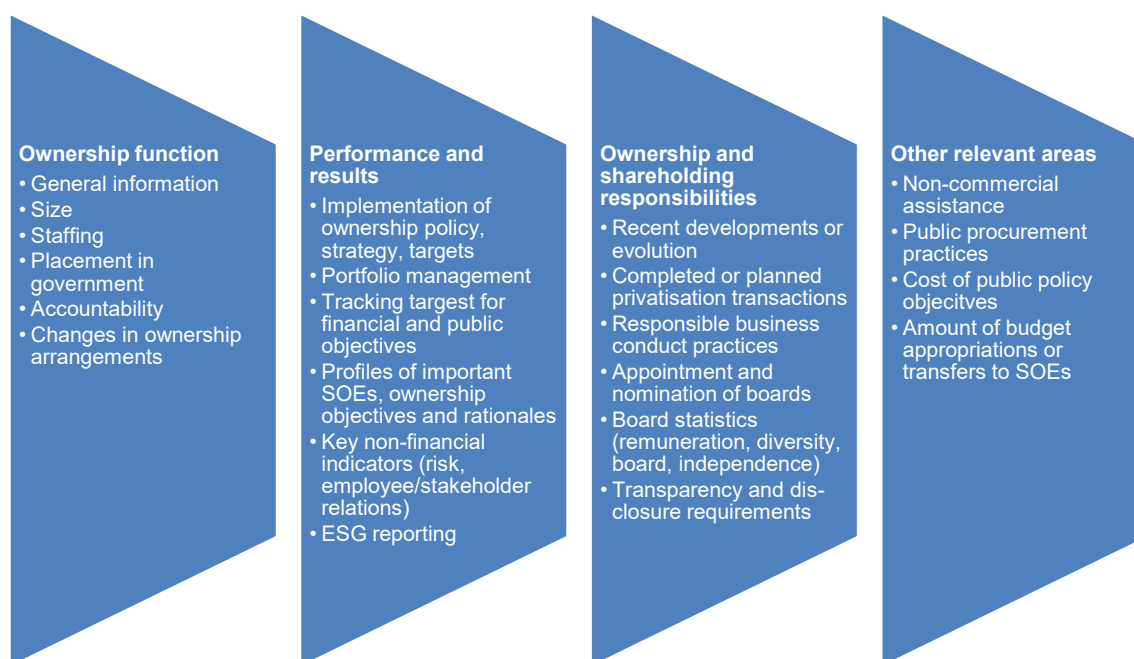
Source: Submission from Dutch Government.

The report: Non-financial reporting

Non-financial reporting is a key aspect of the aggregate report and can serve as a means for the state as an owner to report on its ability to see through the state ownership policy, implement high standards in corporate governance practices, and to demonstrate how it has served as an effective steward of state assets. Moreover, it offers a different lens through which readers can understand non-financial value drivers.

The rest of this section would dive into the recommended coverage and content of non-financial reporting. It will be split into four categories covering: (1) key data related to the ownership function; (2) performance and results of the ownership entity; (3) state's role as owner and shareholder; and (4) other relevant topics. For each category, examples of national practices will be shared along with guidance on what the coverage and content might cover (Infographic 5.5).

Infographic 5.5. Non-financial reporting: scope and coverage



Source: Author.

Ownership function - key data

This section of the report might cover general information on the organisation of the ownership function, its size, and placement within the government and accountability mechanisms (especially where ownership arrangements have changed). The annual might report on the annual budget of the state ownership entity and staffing (especially if it is operating at arm's length from government), as well as its stewardship role in portfolio management. This can either be integrated into the overall narrative aggregate report or produced as a stand-alone report, depending on the reporting requirements and the legal form of the state ownership entity. For example, in **France**, the Shareholding Agency produces a stand-alone report on its results, main events, and as an agency. Separately, it produces a separate exhaustive financial reporting covering the state's shareholdings and covering all SOEs. Corporatised state-ownership entities, such as those organised in the form of state holding companies, should produce consolidated financial statements for the holding and its subsidiaries, ideally in line with IFRS principles. In most cases, financial reporting is

presented with an annual report that describe the governance and performance of the holding and its subsidiaries, and other relevant non-financial information (e.g. Greece's HCAP).

Performance and results of ownership entity

Implementation of the state ownership policy, strategy and targets (both financial and non-financial targets)

With regards to the information on the state's ownership policy and its implementation, this generally includes: (1) overview of the 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.

It may cover both financial and non-financial targets. The SOE Guidelines Recommendations on "Rationales for state –ownership", set a logical starting point for the development of aggregate reporting, which is the ownership policy that provides the rationale for state ownership. This rationale then feeds into a framework for prioritising SOE objectives and desired targets (financial and public policy objectives), and then defines the respective responsibilities of the state bodies involved in its implementation (see also Chapter 2 and Table 5.3). This point of departure can serve as an objective basis from which the ownership entity can begin measuring outcomes (financial and non-financial) for the overall portfolio, and its role as an effective steward which can be presented in the annual aggregate report. Additional non-financial indicators, such as risk disclosure and mitigation measures; and employee and stakeholder relations may also be covered.

Table 5.3. Model reporting template: Tracking financial and non-financial targets and outcomes

An active and informed owner will systematically track financial and non-financial targets it sets for SOEs, to evaluate and develop SOEs, and compare performance outcomes with set targets. Good practice would serve to disclose targets and outcomes in the annual aggregate report

FINANCIAL TARGETS AND OUTCOMES (%) FOR REPORTING YEAR			
Enterprise name	<i>Profitability (Return on equity, or other relevant metrics)</i>	<i>Capital Structure (Equity/assets ratio, or other relevant metrics)</i>	<i>Dividends (Based on earnings, or other relevant metrics)</i>
	<i>Targets vs Outcomes</i>	<i>Target vs Outcomes</i>	<i>Target vs Outcomes</i>
Aggregated by portfolio	<i>Share of SOEs that achieved profit targets (achieved, partly achieved, not achieved, no targets)</i>	<i>Share of SOEs that achieved capital structure targets (achieved, partly achieved, not achieved, no targets)</i>	<i>Share of SOEs that achieved dividend targets (achieved, partly achieved, not achieved, no targets)</i>
PUBLIC POLICY TARGETS AND OUTCOMES			
Enterprise name	<i>Public policy target adopted</i>	<i>Target level</i>	<i>Outcome</i>
	<i>Enterprise specific public policy targets</i>	<i>Expressed as percent, share, other relevant metrics</i>	<i>Expressed as percent of target achieved per reporting year</i>
Aggregated by portfolio	<i>Share of SOEs that achieved public policy objectives (achieved, partly achieved, not achieved, no targets)</i>		

Source: Author based on Swedish Annual aggregate report. (Government of Sweden, 2021^[12])

Ownership and shareholding responsibilities

Relevant topical issues, for example recent legislative changes, portfolio developments, ownership policy developments, completed or planned privatisation transactions

The introduction section would vary country by country, but should include a presentation of key highlights or significant events relative to the SOE sector during the previous financial year. For a first iteration of the annual report it would also be good to offer an introduction to ownership arrangements. In case of any recent legislative or policy developments, these should be covered in summary in such an introductory section. Furthermore, in countries with active privatisation programmes, this section might also report on notable transactions that have taken place in the reporting year.

Responsible business conduct

A survey of recent annual reports demonstrates that shareholder reporting in the area of responsible business conduct practices is of growing importance. An increasing number of annual aggregate reports focus on social, societal and environmental performance of their portfolios (this can be framed as corporate social responsibility, sustainable value creation, sustainability, ESG, etc.). Information may include the overall vision of the state owner in terms of responsible business conduct practices, including the rationales for ownership, the overall strategy with regard to social, societal and environmental issues in the governance of enterprises; importance of human rights, anti-corruption efforts, business ethics, and adherence or alignment with relevant international guidelines in this area (OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, the Global Compact and 2030 Agenda, etc.) This might be further supplemented with more detailed reporting on these issues for the portfolio and by enterprise. For example, to shed light on the portfolio's climate footprint some countries have started reporting the level of CO₂ emissions by the portfolio and individual enterprises; to demonstrate the focus on well-being statistics on sickness absence may be included; to demonstrate alignment with sustainability some aggregate reports might report on how individual SOEs relate to specific Sustainable Development Goals.

The **French** annual aggregate report describes how the state as an owner defines its priorities in the area of corporate social responsibility (CSR). These are organised in a “CSR Charter” covering 4 main pillars covering:

- Integration of CSR practices in SOE strategies
- Ensuring a transition to a low carbon economy and reducing SOE environmental footprints (e.g. reducing the impact of SOEs footprint on the environment, this might include offering indicators on the level of CO₂ emissions of the portfolio, and by enterprise; the level of waste production and supporting the circular economy, efforts to support biodiversity, etc.)
- SOEs acting as responsible employers (e.g. responsible employment practices, including supporting diversity, avoiding discrimination, cultivating social dialogue, supporting economic and local development, supporting health, security, prioritising well-being in their work place)
- SOEs generating positive social impact (measuring the level of local development or employment, responsible public procurement practices, and other areas that might support demonstrating SOEs are acting as good corporate citizens).

Other themes of relevance from a shareholder perspective

This section of the annual report might highlight areas or themes of particular relevance from a shareholder perspective which can relate to current market environment, the government's strategy and ownership policy or developments in the business plans of SOEs in the portfolio or the government's expectations of the SOEs. These topics might cover geopolitical or major events (e.g. pandemic), digital transformation,

innovation, security, links with the national development plan, gender equality and diversity, etc. The **Irish** annual report focuses on different thematic topics, these vary according to the reporting year (Box 5.3).

Box 5.3. Case example from Ireland

The NewERA annual report from 2018 annual year focused on the potential impact of Brexit and the delivery of key investment priorities as part of the National Development Plan 2018-2027, the 2019 report returned focus to the sustainability agenda and specifically the area of climate action. Given that the State should adhere to good corporate social responsibility practices in its own operations, it follows that the State, as owner or majority owner of the Portfolio Companies, would expect that these companies act as leaders in terms of responsible and sustainable business practice. That message is borne out of the climate action leadership by the public sector and by extension, the commercial State sector.

The climate action agenda will, in NewERA's view, remain an important area of focus for the boards of all the Portfolio Companies over the period to 2030 and beyond. It is recognised that the transition to a low carbon energy future affects some of the companies more than others with the impact being considerable for those operating in the energy sector given the relative nature and scale of climate-related risks and opportunities they face.[...] The delivery of this step change also requires significant capital investment.[...] NewEra looks forward to engaging with both Government and the Portfolio Companies in contributing to the achievement of the objectives of the Climate Action Plan 2019.

Source: Excerpt from NewERA Annual Financial Review 2018/19, page 2 (NewERA, 2020^[22])

Government policy on relevant corporate governance issues

Board practices

Not all countries systematically provide information in their aggregate reporting on SOE board practices. Those that do may publish aggregate figures on gender diversity in boards, board remuneration (or even detailed remuneration of individual board members); information on nomination and appointment practices relevant to determine board autonomy and independence.⁷ Some good practices areas of coverage might include:

- Appointment and nomination policy for SOE boards as well as board composition
- Percent of gender balance achieved in executive and board positions (including board chairs), by SOE and in aggregate
- Remuneration policy for SOE board members and executives, by SOE and in aggregate (possibly grouped by company size)
- Reporting on recent changes in SOE board composition and/or independence criteria (as relevant)
- Statistics or relevant policies to promote diversity in board and executive-level positions, by SOE and in aggregate

⁷ If the State retains effective control of a partly privatised 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.

For example, the **Netherlands**, **Norway** and **Sweden** report on the overall proportion of women in the boards of SOEs. **France**, the **Netherlands**, **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). As a good practice, data on board practices might be benchmarked against the broader corporate sector, based on information available from third party databases. Such benchmarks might compare average remuneration levels or directors and executives with comparable averages for the corporate sector (e.g. **Sweden** groups SOEs by turnover to ensure comparability). On diversity statistics, board and executive diversity attainment might be benchmarked against comparable data available for the corporate sector.

Transparency and disclosure requirements

Requirements for auditing standards applied to SOEs and frequency and accuracy of financial and non-financial reporting by SOEs would normally be addressed in a section detailing the disclosure policy developed by the ownership entity. If this is typically included as part of the ownership policy or other publicly-available government policy document, it can either be annexed to the aggregate report or cross-referenced in the aggregate report with an easily accessible link.

Government policy towards setting financial targets for SOEs

Sharing the government policy towards identifying financial targets (e.g. capital structure, profitability and dividends) is important source of transparency and disclosure. There is no uniform policy with regards to financial targets across any one country. 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.

Transparency and disclosure around the state's policy on dividends can help to ensure market consistency of state ownership practices and an individual company's commercial orientations. 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).

In more sophisticated annual reports, such as the one produced by **Sweden**, the ownership entity tracks the achievement of SOEs in terms of these financial targets which is a way of communicating to the public on how effective and active an owner it was. According to the ownership policy, this disclosure aims to:

- ensure value creation by the board and enterprise management working towards long-term, ambitious and realistic targets;
- achieve capital efficiency by clarifying the cost of equity;
- keep the enterprises' financial risk at a reasonable level;
- ensure dividend yield for the owner through sustainable and predictable dividends taking account of the enterprise's future capital requirements and financial position; and
- measure, track and evaluate profitability, efficiency and level of risk in a structured manner.

Other relevant areas to cover

The issue of competitive neutrality is gaining importance in various contexts. An emerging area of good practice is to use the aggregate report as a means to underline the governments broader effort to maintain a level playing field, to quantify of the cost of public policy objectives carried out by SOEs (**Costa Rica**), or even establish linkage between online inventory of the full SOE portfolio with those focused on public procurement to make links between individual SOEs and their public procurement activities (**Ukraine**).

It is considered good practice to produce distinct reporting on the costs related to SOEs' public policy objectives, and (where applicable) the related funding provided from the state budget in the form of non-commercial assistance (Box 5.4). While this is often not featured in the annual aggregate report such information may be subject to part or full disclosure and publicly available by other relevant government departments. Information disclosure is further complemented by disclosure by individual SOEs in their financial and non-financial reporting. In order to enhance transparency in this area, ownership entities could consider integration of such information in the annual aggregate report, adding a web link or directing users of the aggregate report to the relevant government source for such information, and establishing cross-linkages via online informal portals to relevant sources of information. This can serve to better facilitate access to and transparency around non-commercial assistance.

Latvia, stands out in this regard as relevant information is made available in aggregate reporting, with more complete information separately issued by individual ownership entities reporting on the amounts of the state funding, grants or subsidy planned and received by individual SOEs; this information is also available on an interactive database hosted by the Cross-Sectorial Coordination Centre. **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. For enterprises that receive budget appropriations as part of the specific public policy assignments that they carry out, the annual aggregate report reports the (1) amount of the budget appropriation for the reporting financial year; (2) the total income of the SOEs; and (3) a percentage share of the financial that the SOE received as part of the budget appropriation. Similarly, in **Norway**, the aggregate report discloses all public funding given to SOEs, and to enhance transparency the report also states where the funding originates from (ministry, municipality etc.). The funding is disclosed for the individual SOEs and on an aggregated level.

Box 5.4. Transparency in areas relevant for competitive neutrality

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. While this is an emerging area of good practice for the coverage of annual aggregate reporting (with relatively few countries covering these areas), authorities may consider covering some relevant areas related to competitive neutrality which are related to:

- A full list of economically significant commercial entities owned by the state⁸, and the percentage of voting shares in those entities
- Disclosure of a list of SOEs subject to public policy objectives and funding sources
- Quantitative and qualitative information on the nature and form of non-commercial assistance or subsidies provided to SOEs; total amount received or budgeted
- Information on the applicability of state aid rules and/or existing national competitive neutrality frameworks (where established) to commercially active SOEs (alternatively this information may be included in the ownership policy which can be annexed or linked to the annual aggregate report)
- 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.).

Source: (OECD, 2021^[23])

⁸ Where this may not be possible ownership entities could aim at publishing partial aggregate reports covering SOEs in comparable sectors. Applicable international, bilateral or international agreements may apply.

6

Publication, dissemination and accessibility

This chapter discusses best practices in the publication, dissemination and accessibility of the aggregate report.

Once the process of compiling the relevant data and information is completed the report should be prepared for publication and dissemination and be easily accessible to the public. The completion of a review cycle might also initiate a reflection process on improvements and best practices to be implemented for the next review cycle (Figure 6.1). These aspects are considered below.

Publication

The OECD Guidelines on Corporate Governance of State-Owned Enterprises (the “SOE Guidelines”) provide that the aggregate report should be published on an annual basis. This is based on the premise that state-owned enterprises (SOEs) are subject to high standards of transparency and disclosure, and are thus expected to release financial and non-financial information on an annual (and often quarterly) and timely basis. The final release date of the annual report, will thus be determined by the availability of financial and non-financial reporting by individual SOEs for the previous financial year. Depending on how complex the portfolio might be, and the timeliness of the information provided by individual SOEs, it may take more or less time for the ownership entity to gather all elements necessary to compile the report. Once information is collected, it should be subject to a thorough analysis and review, and be made comparable.

Once a finalised draft is prepared it might have to go through established approvals process. For example, in countries where the aggregate report is derived from an annual reporting requirement to Parliament, the report may be subject to release further to its submission to Parliament. However, care should be taken to

avoid issuing the report too late after the financial reporting year, to ensure that data remains timely and relevant. With advances in technology, both in terms of data collection and publishing, information can be collected and updated in relatively little time with the possibility to issue the report shortly after the release of data for the financial year and statutory approvals processes.

Where online databases have been developed with digitalised reporting frameworks, the data that is made available can be offered in a real-time basis, and offered both on an annual and quarterly basis (depending on the disclosure frameworks in place). For example, **Korea's** Ministry of Economy and Finance's internet-based portal called ALIO (All Public Information in One) inventory system (www.alio.go.kr) draws from individual SOE's public disclosure and reporting. 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 other areas.

Figure 6.1. Publication and dissemination modalities

A combination of publication and dissemination will help reach the intended audience of the annual aggregate report.



Source: Author.

Presentation to the legislature

Using the annual aggregate report as a mechanism to report back to Parliament is an important element of the overall accountability framework of an ownership entity, as Parliaments represent the ultimate owners of SOEs, i.e. the general public. As mentioned earlier, most ownership entities do not develop the annual report as a result of a formal reporting requirement. In fact, reporting for approval could be discouraged, or at least strictly limited, to significant decisions to avoid undue political interference. (OECD, 2010^[24]) However, the process of presenting the report to the legislature can be an important element to support holding the ownership entity (-ties), as well as individual SOEs accountable on a regular basis. The format of the annual aggregate report should lend itself to presenting information in a consolidated, and concise format gathering relevant information to also inform better-structured and focused

parliamentary discussion. Where more detailed discussions are merited, appropriate use of specialised committees might be made to encourage more in-depth and technical discussion and prepare and flag key issues for plenary debates. Where a specific and separate discussion on the performance of SOEs could be organised, which could also serve to feed into a periodic analysis of the effectiveness of state ownership and a systematic review of SOEs' mandates and rationales, specific procedures need to be developed to deal with confidentiality issues, including confidential or closed meetings, particularly when the SOEs concerned are in competitive sectors. (OECD, 2010^[24])

Accessibility and dissemination

Good practice would call for the ownership entity to make the aggregate report widely available to the public, media, and stakeholders in the form of a website or portal with allows easy access to information on the organisation of the ownership function, general ownership policy as well as information on the size, evolution, performance and value of the state sector. With the move towards digitalisation many governments have been using information and communication technologies to ensure aggregate reports and inventories of financial data on SOEs are available online and in easy to access formats. This contributes to broader policy goals of enhanced transparency, accountability and integrity in the state's role as owner.

A launch event could serve to get more visibility of the results as well as reach out to a broad set of constituents. The ownership entity should issue a press release within a few days prior to the release date of the report, and might hold a press conference to ensure that the release and event is given adequate media coverage and attention. For example, in **Norway**, the Ownership Department of the Ministry of Industry, Trade and Fisheries, responsible for ownership steering and author of the report, has for several years organised an annual ownership conference mid-June every year which is when the annual report is launched among 200-300 industry professional including business, industry and parliamentary officials. Typically, the Minister and the Chair of the Ownership Department present the main outcomes of the report at the conference. The conference has normally been streamed to the public. In 2020 and 2021, the Minister of Trade and Industry also held a press conference when the report was launched, where the main results from the report were presented.

While the audience of the annual aggregate report is mainly relating to a domestic constituency, including the SOEs themselves, the legislature, other parts of government, business and industry, and stakeholders, there is increasing awareness that demand for information can also cater to an international audience. As such, around one-third of ownership entities translate in full or partially their annual aggregate reports into other languages, primarily English, to have a broader readership (Figure 4.1). Countries with online inventories also often allow for multiple language access. Such a broader audience might include other ownership entities, regulatory bodies, international investors, international financial or economic institutions, or foreign trade partners. For example, in **Turkey**, the Treasury disseminates the report to all universities, and a broad distribution list of stakeholders, including to the Planning and Budget Commission of the National Assembly, line ministries, supervisory board members and executives. The distribution list is updated every year. While the Turkish version of the report is more comprehensive, the Treasury translates a consolidated version of the report into English which is intended for international engagement and is sent to the office of the Minister and other high-level government officials for dissemination.

Next reporting cycle

As the reporting cycle comes to a close the ownership entity should be forward looking to consider how to improve its reporting. Lessons learnt from the latest iteration of information collection should be noted, and bottlenecks should be addressed to avoid encountering the same problems in the next cycle. Ownership

entities which have not developed standardised reporting templates might consider developing tools to allow for data standardisation and comparability when soliciting information from individual ownership entities or SOEs. Further developing IT solutions to address information collection, such as the use of data management tools (such as Sharepoint or “iLevel”) or more sophisticated data portals (such as those cited in Box 6.1) to embed the information in an integrated dashboard interface with underlying management systems and processes to be developed might be considered.

Once the report is presented to the public, the ownership entity might take note of reoccurring questions or information requests which are received (for example at the launch event, during parliamentary discussions or direct information requests from stakeholders). Should information be in high demand, the annual aggregate report might be a place to offer more regular reporting of such topics. This can serve to be more transparent in areas which are of concern to stakeholders, and avoid responding to recurrent *ad hoc* requests for information.

The next reporting cycle should also provide the ownership entity the opportunity to periodically check whether the information reported is comparable in form and function with information issued by peer ownership entities. The value of information is in its comparability. When ownership entities begin to develop annual reports this usually evolves over time with broader portfolio coverage, and reporting of an expanded set of topics and areas. Countries with a long history of issuing such reports, can serve as a good example of what topic areas can be covered in future iterations.

Box 6.1. Government portals with information on SOE portfolios: Case examples

Australia

The Australian Department of Finance publishes annual reports to inform the Parliament and the public about the achievements, performance and financial position of Commonwealth entities and companies at the end of each reporting year

In addition, Commonwealth entities and companies are required to publish their annual report to the Transparency Portal after it has been tabled in Parliament. The Transparency Portal, at transparency.gov.au, is the new central repository of publicly available corporate information for all Commonwealth bodies. Over time, the portal is to become the single definitive source of Commonwealth corporate information, providing easy access to the information for the Parliament and the public

This is a new and ongoing requirement that was established for the 2018-19 reporting period. The digital reporting tool facilitates the development and publication of annual reports to the Transparency Portal once tabled. The annual reports should adhere to reporting templates developed by the Treasury. The Transparency portal allows for easy access to entities annual reports and enables selected data to be compared and analysed.

The Transparency Portal promotes further information sharing via a number of common platforms (Twitter, Facebook or LinkedIn) or email. Sharing content from the Transparency Portal is via a unique link to the website—making it verifiable as the source of information.

Korea

The Ministry of Economy and Finance hosts a dedicated website called ALIO which provides an extensive reporting on individual SOEs. The website periodically provides aggregate financial and employment figures of individual SOEs including each SOE’s asset value, debt-to-equity ratio, net income, total number of executives and employees, etc.

Philippines

The Integrated Corporate Reporting System is a one-stop-shop portal of relevant information on SOEs overseen by the Governance Commission. Pursuant to the “GOCC Governance Act of 2011” (R.A. No. 10149), the ICRS is a web-based platform that is intended to: (1) Assist the State in the exercise of its ownership rights in the SOE sector through the provision of up-to-date, complete and relevant information; (2) Streamline the various reportorial requirements for SOEs; and (3) Promote greater transparency and timely access to relevant information on the SOE sector through a single online web portal.

The ICRS is intended to enhance the transparency and disclosure policies on the operations, finances, and management of SOEs, while amplifying the Governance Commission’s regulatory capacity through the use of business analytics technology. The ICRS also serves to simplify various reportorial requirements of SOEs.

Turkey

The Turkish Treasury has developed its own custom made online system to obtain financial and non-financial data which it receives in online excel tables, which has been in use for the last 20 years. Individual SOEs are provided with access rights, and upload information in a uniform spreadsheet. The Treasury can easily compile and aggregate the data that is provided with its custom made software (web application based).

Ukraine

Over the last five years the Government of Ukraine has worked towards improving transparency and disclosure of its large state-owned sector which is fully decentralised, with over 85 different state actors, ranging from the Cabinet of Ministers, and State Property Fund, to line ministries and state agencies exercising ownership rights.

From 2014-2018, the Ministry of Economy published an aggregate report on state ownership of the top-100 economically important SOEs. The reports were issued biannually and annually and published on the website of the ministry. Previous iterations of the report have been available in both English and Ukrainian. The reports have financial and operational results of the largest SOE, and highlights key financial data on the performance of individual SOEs and key sectors of the economy where the state is present. However, the report has since been phased out.

However, additional improvements have been made to the availability of information. In July 2019 an e-reporting system, Prozvit, was launched by the Ministry of Economy with support international partners. The portal, which is also available in English, contains financial indicators of more than 3 500 state-owned enterprises that are under the control of central executive authorities, on the basis of their financial statements. The e-platform represents an improvement in terms of access to information, especially if coupled with narrative reporting in the future.

Source: (OECD, 2021^[25]) (Australian Government Department of Finance, 2021^[26]) (Governance Commission, 2021^[27])

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