New rule tightens watch on SOEs

Managers of listed State-owned Enterprises (SOEs) might be kicked out of the Party for insider trading under a new regulation.

The Central Commission for Discipline Inspection of the Communist Party of China issued a rule on Tuesday detailing penalties for offenses pertaining to the work of SOE managers.

All SOE heads are banned from taking advantage of their easy access to inside information about plans for listings, refinancing moves, and mergers and acquisitions, to profit either for themselves or for those they have special relationships with.

The others include:

Corruption in the process of asset integration and the introduction of strategic investors.

Providing advantages for their business partners to engage in business activities.

Forcing or masterminding accountants and auditors to make false fiscal reports.

Setting salary standards for themselves, profiting from part-time jobs or arbitrary bonus sharing.

Under the new rule, SOE managers could be demoted, sacked or even expelled from the CPC if they fell into any one of the categories.

Despite relevant rules and laws targeting corruption among SOEs, supervision of them has become more difficult as their assets and profits have soared in recent years, Li Rongrong, chairman of the State-owned Assets Supervision and Administration Commission, said.

"It is also more complicated to oversee the State's shareholding in listed companies as well, as many shares have come out of their lock-up periods and onto the market," Li was quoted by the Xinhua news agency as saying earlier.

Li said SOEs should improve their corporate governance while authorities should set more specific rules to prevent insider trading and other illegal activities.

The new regulation "makes penalties more feasible and perfects the system", Wang Yukai, professor with the National School of Administration, said.

However, Zhao Jie, a researcher with the Party School of the CPC Central Committee, said the key factor lies in strengthening corporate and board governance for these companies.

"The chronic illness of highly concentrated power in the hands of a single SOE head still exist in the country, " Zhao said.

"This could breed corruption if this power is unchecked."

He said the offences mentioned in the new regulation are prominent ones that have evolved with the country's incomplete restructuring of the SOEs.

If a proper corporate governance system was set up, with proper auditing and accounting organs disclosing information regularly, these problems could have been overcome, Zhao said.

Several corrupt SOEs managers have been arrested in recent years.

Experts said that unchecked power was the root cause of their extravagant lifestyles using company funds.

In one case, Chen Shuangquan, the former chairman of the Shaanxi Freeway Construction Group Company, was sentenced to death in April for taking bribes amounting to 14.73 million yuan ($2.1 million).

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