TUAC trade union advisory committee to the
OECD organisation for economic cooperation and development
■ **CSC** commission syndicale consultative auprès de
OCDE l'organisation de coopération et de développement économiques

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UNIONS CALL ON G8 LEADERS TO WORK ON NEW TRANSPARENCY AND TAX RULES FOR PRIVATE EQUITY

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Unions from 15 countries and a dozen global organisations meeting at the OECD in Paris issued a strong call for the activities of companies to be oriented toward long term sustainable investment strategies that create wealth for all, and good employment opportunities for workers.

Unions note that private equity firms have in a short period become owners and movers of vast pools of capital, significant swathes of the economy and of employment. The share of private equity investments in the total volume of mergers and acquisitions exceeds 20 percent in some OECD economies. These alternative funds are highly "leveraged" (i.e. debt financed) and are exempt from many of the regulations that apply to traditional collective investment schemes, to banks and to insurance companies, notably in the areas of investment prudential rules and reporting requirements.

The very high rates of return required to finance private equity debt-driven buy-outs can jeopardise target companies' long-term interests and provision of decent employment conditions and security for employees. Rather than corporate restructuring for the purpose of shared productivity gains, some private equity firms are seeking to extract maximum value over a short period before reselling the company (or what remains of it) and banking a substantial premium. Trade unions' experiences with employment and working conditions in leverage buy-out firms are alarming. There is a strong concern that the private equity model poses risks to the stability of the international financial system and the sustainability of national economies.

The growth of private equity investment requires a coordinated regulatory response by the international community and by OECD governments in particular. Regulatory reforms should address four areas:

- Transparency, prudential rules and risk management: There needs to be a level playing field between those alternative funds and other collective investment schemes with regard to transparency and reporting on performance, risk management and fee structure. Importantly, the investment policies of private equity within the OECD zone should be regulated according to prudential rules aimed at both financial market stability and long term asset value creation.

- Workers' rights to collective bargaining, information, consultation and representation within the firm should be regarded as key mechanisms by which the long-term interests of companies can be secured and promoted.

- Tax regulation – including tax deductibility of debt service, tax on capital gains and tax havens – needs to be reconfigured to cover private equity regimes so that tax systems remain investment-neutral and are not biased toward short-term investor behaviour.

Some countries have already either proposed tax legislation to curb the negative tax effects of the activities of private equity funds (e.g. Denmark) or announced that they would further investigate the effect on their tax systems of such activities. Comprehensive answers should be developed so that the increasing activities of private equity funds does not jeopardise government revenues from corporate taxes.

- Corporate governance: Current national corporate governance frameworks focus on publicly traded companies and generally have far more weaker requirements for un-listed companies. In addition, they do not have sufficient mechanisms to guard against short term value extraction and to promote long term value creation. They are not suitable to address the challenges of private equity's short-term ownership regime. The responsibility and powers of the boards of directors to preserve long-term interests of companies under private equity regime need to be reinforced.

Unions call the OECD Ministers and G8 leaders to create an international regulatory task force on private equity including the OECD, the IMF, the Financial Stability Forum, relevant UN agencies, and the ILO.

TUAC has consultative status with the OECD and represents 66 million workers in 56 affiliated organisations in the 30 OECD countries. It is part of the Council of Global Unions representative of some 180 million workers worldwide.

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