



6th SOUTH EAST EUROPE CORPORATE GOVERNANCE ROUNDTABLE

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Enforcement of Corporate Governance Rules

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**The Global Corporate
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**CENTRE FOR
PRIVATE SECTOR DEVELOPMENT
ISTANBUL**



**Session 1: Progress in Corporate Governance in South East
Europe**

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**6th South East Europe Corporate Governance Roundtable
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**Recent developments in corporate governance
Reform in Bosnia and Herzegovina**

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Talking about recent development in corporate governance in Bosnia and Herzegovina, general comment would be that there was no some significant progress.

The start was pretty good. Very soon after adoption of the White Paper, financial magazine "Prizma" published it's translation into local language. At the end of year 2003. and beginning of 2004. there were several presentation of White Paper to the professionals, state officials and general public, but after that, came rather silent period.

The most important reason for that silence is the fact that regulatory authorities in Bosnia and Herzegovina did not put enough efforts to improve implementation and enforcement of corporate governance principles. Neither Securities Commission (SEC), nor courts provided sufficient resources to this issue.

SEC, who was very active in creation of White Paper and used to be leader in promotion of corporate governance became quite. Although, Law on SEC stipulates that SEC is authorized and responsible for the regulation and supervision of the application of corporate governance standards, that's still just proclamation, without practical value. SEC adopted some rules on CG but after that there was no activities in it's implementation. There is no department within SEC who would deal with CG. Initiative for publishing of public companies annual reports on SEC's website didn't bring desired results. Checking the website few days ago I found only 62 report out of 718 registered joint stock companies. That's less than 9%.

"Forum for Corporate Governance", led by Commissioners, with the mission to promote corporate governance principles, do not exist at all.

On the other hand, talking about enforcement, there is no specialized "commercial courts" who would deal only with commercial disputes. Regular court are overloaded with everyday practice and disputes, so they have no time to pay special attention to CG issues.

Further problem is that private sector did not realize the value of good CG practices. It is unlikely to expect private sector to lead, if regulators are not interested for it. In the last two years there was no coordinated action by policymaker, regulator and private sector to promote benefits of good CG practice. Centre for Competitiveness and Corporate Governance, non-governmental organization, with the mission to actively participate in the building of a reliable and effective corporate governance system and the strengthening of competitiveness of the business environment of Bosnia and Herzegovina, also terminated their activities.

Anyhow, there were two areas where some progress has been made: disclosure & transparency and convergence towards International Financial Reporting Standards (IFRS).

Sarajevo Stock Exchange (SASE), last year offered new service on their web site: financial reports of all companies listed on SASE. Of course, publishing of basic information for

listed companies, including annual reports, are basic principles of securities market functioning. But having in mind the fact that before this, on SEC's website there were less than 10% of annual reports of listed companies, that's great progress.

Second point of progress is the new Law on accounting and auditing in Bosnia and Herzegovina that came into force in June last year. This law is step ahead in convergence towards IFRS, since the Law impose integral usage of IFRS for all private and public companies. Of course, the Law should be implemented and some problems already appeared. For example, there is no penalties for non-compliance and that could be the problem for full implementation of the Law. Commission for implementation of the audit standards was established later than it was set by Law. A lot of work should be done with auditors to enable them for full implementation of IFRS, but the Law is good starting point.

What should be done to improve the situation?

First of all, that is joint action of responsible state bodies and all the stakeholders in promotion of good CG practices. There is general need to increase public awareness on importance of CG and the first priority, should be to raise awareness of good CG practices to government officials and regulator. SEC should realize that CG practice is benefit for securities market and they should promote, as well as enforce it.

Protection of shareholders rights is necessity, either by broader engagement of SEC or by foundation of specialised Commercial courts who will deal only with economic law. In our circumstances, probably would be cheaper, faster and more feasible to establish department within SEC who would deal with enforcement of CG rules and regulations.

"Forum for Corporate Governance" and similar private NGOs should be revitalized, with an objective to enable, articulate and combine the readiness and the efforts of local stakeholders to develop and drive a policy agenda that will stimulate investment, protect the rights of shareholders and help businesses better compete.

Establishment of an association of shareholders would be also helpful. Some institutional organization should exist and offer legal and any other help to shareholders in fighting for their rights.

Education and training of Board members should be continuous action. Very often Board members are not aware with basic duties and rights and act either as observers or as major shareholder's executives. Since remuneration is the only "*spiritus movens*" of their activities, probably would be good idea to connect it with company's results.

One of ppriorities should be full operation of Commission for accounting and auditing standards. Commission should establish close cooperation with SEC and Stock Exchange in order to insure full implementation of transparency and disclosure standards.