



6th SOUTH EAST EUROPE CORPORATE GOVERNANCE ROUNDTABLE

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Enforcement of Corporate Governance Rules

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**Session 3: Enforcement of Corporate Governance Rules –
The Role of the Private Sector**
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Capital, Bulgaria*

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Session 3: Enforcement of Corporate Governance Rules – The Role of the Private Sector

Discussion: Notes by Stefan Petranov, Chairman of the Board, Golden Lev Capital, Bulgaria

There is a common understanding among many practitioners and academics that the implementation of good corporate governance systems in emerging markets requires at least two phases. At the first phase regulatory reform is required, development and refinement of laws. At the second phase efforts should be targeted on implementation and enforcement of legislation and good international standards and practices.

It is widely believed that in Bulgaria relatively modern laws (well harmonized with the EU Directives) are already in place. More or less the first phase has been passed. There is a lot to be desired when it comes to the second phase – implementation and enforcement. From this prospective it is a very natural question to ask – could the private sector play an important role in enhancing corporate governance. The general answer is clear – yes. After all, corporate governance is about private sector, good corporate governance benefits the private sector in the long run. There is no way a system of good corporate governance to be in place unless the private sector is deeply and voluntarily involved. Private sector could have an important role for enhancing corporate governance, but does it have such a role? My understanding is that for the moment being the answer is negative. Why I think so?

If we take an objective look at the current situation we will observe that in terms of corporate governance the private sector has achievements and, of course, challenges to meet. Among the achievement the most important ones are:

- all public companies have corporate governance programs;
- corporate governance programs are required to be based on OECD Principles and to reflect best international practices;
- all public companies should include in their Annual report a report on the implementation of their corporate governance programs;
- all public companies are required to have investor relations officer

These practices contribute to the improvement of the corporate governance system, no doubt. But it should be noticed that they have been a result from refinement and putting special provisions in the law. They have been forced by the regulation, they do not come from self-initiative or self-regulation of the private sector. When it comes to self-regulation, director accreditation, continuous education, creating incentives to make changes in business attitudes and practices, in general they are out of the focus of the private sector in Bulgaria for the moment.

What could be observed in Bulgaria is that corporate governance issues have been introduced by and have been in the focus of non-government organizations, academic institutions and regulators. They have never been, up to now, seriously in the focus of the private sector. Business associations typically discuss issues related to labor relations, environment, production

standards and so on. They have never discussed corporate governance codes or best practices or special tiers on the stock exchange. Also, business associations or individual businesses sponsor typically education in marketing, production efficiency, human resources. There aren't significant cases of businesses sponsoring training programs in corporate governance.

A large part of the explanation for this situation is that the pool of public companies is still very heterogeneous. The bulk of companies have gone public in an administrative way, not voluntarily. Many public companies do not possess the appropriate profile for being public companies. As a result, the private sector, to a large extent, remains for the moment still uncommitted to the corporate governance reform in the country.