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Enforcement of Corporate Governance Rules

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ISTANBUL



**Session 2: Enforcement of Corporate Governance Rules –
Role of Securities Regulators**

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THE ROLE OF SECURITIES REGULATORS IN THE ENFORCEMENT OF CG RULES **Dejana Suskavcevic, CEO, Montenegro Stock Exchange, Serbia and Montenegro**

Adequate role of securities regulators in the enforcement of corporate governance rules is crucial thing in reference with good cooperation and connection between all sides (stakeholders) related to company. From adequate role of securities regulators, complemented by role stock exchange, depends mechanisms: supervision and control function, informing and responsibility of participants.

Securities regulators must have independence, resources, remedies and accountability necessary to oversee financial markets effectively. They also oversee stock exchange, and play important role in protecting shareholder rights and promoting corporate governance. They must have enough authority to perform their monitoring function, and their employees must be appointed on the basis of professional merit and their respectability in financial markets.

Securities regulators should have access to, and take advantage of «remedies other than suspending trading and de-listing a company stock. Suspension may not be the most suitable sanctions as they penalise primarily market participants. Also, securities regulators and stock exchange must strengthen their monitoring of companies compliance with disclosure requirements.

Stock exchanges play an important role in monitoring information provided by listed companies. Stock exchange is the first level of control and can monitor listed companies disclosure on day to day basis.

Montenegro Stock Exchange exist from June 1993. From foundation until today passed through different phases of development, and in accordance with the regulatory framework the range of market products has changed. Until the end of 2000, long term securities and shares comprised a very small percentage of turnover. Today structure is different, the turnover comprises shares and the bonds of old currency savings.

Like some countries, we had process mass voucher privatization. After that process (on the beging of 2002 year) we got 400 000 new shareholders. They became owners of Montenegrin enterprises and privatization and investment funds. When I think about conditions on the Montenegrin securities market last few years picture is quite different today, and almost all indicators are positive. In refference with that I would like to emphasize following:

Progress in the level of knowledge our shareholder, especially, minority shareholders;

In the begining, our shareholders didn't know what they possess. They didn't know anything about securities and they have been selling them very cheap constantly. But after some period, they realised importance of having ownership in some companies and they started to follow activities on stock exchange. Today, they are very active on both sides – buyers and sellers. They learned how to increase the value of their property. If they choose good securities they will earn more instead of depositing their money in the bank.

Opening our companies for public-listing of companies;

Listing of companies is not obliged on the capital market of Montenegro. It means that companies voluntarily decide will they go on quotation list or leave their securities to be on a free market. After long period, first company appeared on our quotation list in the middle of 2003. Today we have 32 securities, bonds and shares. Shares are privatized or not privatized companies from various sector of economy. We made public their prospectus, auditing reports, important contracts, future plans etc. It is great benefit for all sides: managers, investors, public, media etc. We made them visible for public. But it is case only with listed securities. Others, which are on the free market are without any information. Those companies haven't any legal obligation to announce anything publicly and we plan to do and are doing constantly on that field very hard. That is very important question for both stock exchange and further development of the Montenegrin securities market.

Attractive tax policy:

- In purpose of development securities market, there is no tax on capital gain if we keep securities in portfolio minimum two years, or reinvest capital gain;
- We have the lowest tax on profit in the region – 9%.

For market and its further development, the existence of appropriate securities regulators is necessary. Also, we can have the best legislation and rules, but without enforcement they are nothing. They are nothing also without active participation of all sides (stakeholders).