

THE SECOND SOUTH EASTERN EUROPE
CORPORATE GOVERNANCE ROUNDTABLE

ISTAMBUL, 30-31 MAY 2002

IMPROVED TRANSPARENCY
AND DISCLOSURE:
THE FORCES AT WORK

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REGULATION AND MARKET: THE SPECIAL CASE OF TRANSITION ECONOMIES

- Transition economies have relied almost exclusively on regulation when building capital markets (top-down approach);
- Relatively sophisticated regulatory framework was adopted, inspired by Western models;
- Standards are generally adequate but effective compliance is lacking
- Transparency and disclosure in Romania: the general regime (the company law 31/1990) and the public companies' regime (the stock exchange law and regulations). The role of the boards and the censors.

STANDARDS VERSUS PRACTICE: THE REASONS FOR THE GAP

- Shareholders' attitude and role - the heritage of the privatisation process
- Pervasive institutional weakness - lack of skills, distorted incentives, political involvement etc.
- Subsidiary institutional support: justice and legal practice, accounting and auditing standards and practice.
- The whistle-blowers: institutional investors, professional analysts, specialized media, investors' associations.
- Weak enforcement
- The learning curve

COULD PRIVATE SECTOR INITIATIVES HELP ?

- Romanian experience: the Corporate Governance Voluntary Code
- The Stock Exchange Transparency Plus initiative
- Improved corporate governance standards and practice - the conflicting interests or what's behind the politically correct discourse

THE WIDER PICTURE

- The ENRON lesson, a "peculiarly egregious case of bad management, misleading accounts, shoddy auditing and, quite probably, outright fraud." (The Economist)
- Perverse incentives and conflicts of interests
- Is more regulation capable to cope with market failures - or what can you do "if you don't know what you don't know?" (Leo O'Neill, Standard & Poor's)

REGULATION AND MARKET - THE RIGHT BALANCE

- The built-in checks and balances system for corporate governance - the missing parts
- The right incentives . . .
- In the proper business environment
- Transparency and disclosure: effective enforcement first, improved standards second.