

2nd Meeting of the Eurasian Corporate Governance Roundtable  
Tbilisi, Georgia  
7-8 June 2001

Transparency and Disclosure: setting the context

by

Alexander Krakovsky  
Ukraine Investment Advisors

# Company A

- Company A mission is to become the leading supermarket competitor in our area
- Maintains IAS accounts and is audited by a big five accounting firm (attached)
  - the auditors are confirmed by the shareholder's meeting and report to the shareholders
- Employs an IAS qualified controller with five years of experience, who reports to the board and to the shareholders
- Company A is constantly developing and improving its management information system
- The management has extensive comments and analysis on the accounts, prospects for growth and other material factors affecting the company performance (attached)

## **Board members are:**

- Investment Fund manager (resume attached)
- Representative of EBRD (resume attached)
- Founder/main entrepreneur (resume attached)
- Board members 4-x (relevant qualification attached)

## **The key management qualifications are:**

- Years of experience and role in developing this company
- Other experience
- Education

# Company B

- Company B is a mass-privatized company that owns and manages former state supermarkets (Universams)
- Maintains local accounts and is audited by a local accounting firm (attached)
  - the auditors are selected by the management and report to the management
- Employs a controller, who is also a deputy bookkeeper
  - she has 20 years experience working as a deputy bookkeeper in the supermarket
- Company B is maintaining the control system prescribed by the state norms.
- The management has made verbal comments about the accounts at the shareholder's meeting and no analysis or prospects of survival

## **Board members are:**

- Worker
- Worker
- Shareholder
- Representative from the State Property Fund (SPF)

## **The key management qualifications are:**

- Years of running a state-owned supermarket

# Company A

## **The company has additional transparency provisions in the charter, bylaws and operational procedures:**

- A clear procedure in the charter for communicating with and between shareholders (such as proposals, proxy information, etc.)
- The public information is available to all public on the company web-site and through the shareholder relations office, where the documents are readily available.
  - The document have also been disseminated among securities dealers and through the stock exchange
- Cumulative board election procedure
- Management can be replaced either by the board or the shareholders meeting
- Management and board compensations are clearly stated
- Major shareholders are revealed to the public

# Company B

## **The company has a standard charter, developed by the SPF and bylaws developed by the management prior to privatization**

# QUESTIONS

- Can company B ever become company A?
  - What is a public company?
  - What are the differences in disclosure issues between public and non-public companies?
  - What is the minimum level of disclosure?
  - Should Ukraine have adopted IAS?
  - What is the role of the Securities Commissions?

## Public vs Private vs Mass-Privatized Company

Public Co.	Private Co.	M.P. OJSC	M.P. CJSC
“But when a firm goes public, it does not rise like Venus from the Sea.” Brealey and Myers	Initially new and untried	Arose like Venus from the sea of the collection of state assets.	Initially collection of state assets.
Publicly audited. Public disclosure	No audit necessary. Private disclosure.	Local audit. Public disclosure expected.	No audit necessary. Disclosure to shareholders.
Registered, reports and regulated by SC.	Not registered, does not report or not regulated by SC	Registered, reports and regulated by SSMSC.	Registered and regulated by SSMSC, but does not report.
Many unsophisticated and outsider shareholders.	Shareholders should be sophisticated and insiders.	Many unsophisticated and outsider shareholders.	Many unsophisticated and outsider shareholders.
Publicly traded.	Not publicly traded.	Publicly traded.	Publicly traded. New issues only to shareholders

## What Is The Minimum Level of Disclosure

- Level of disclosure required by the Securities Commission.
- Level of disclosure, such that a rational investor would be willing to pay a premium for a positive NPV project.

# Should Ukraine Have Adopted IAS?

Yes. IAS provides a more objective standard for communicating financial information, which improves disclosure.

No. Ukraine does not have the resources to implement IAS (50 IAS accountants for 12,000 OSC). IAS implemented in most of these companies would not be true to the nature of IAS. UIAS provides a proper signal about the nature and quality of financial information.

# Role of the Securities Commission

- Assure disclosure and minimum standards for shareholder rights protection upon going public.
- Deter securities fraud.
- Assure on-going disclosure.
- Act to protect shareholder rights.
- **Assure effectiveness, transparency and fair dealing in the securities market.**