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Transparency and Disclosure

Key Initiatives in Corporate Governance in the Kyrgyz Republic

by

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Ladies and Gentlemen,

Issues of transparency and disclosure is one of the important aspects of corporate governance.

Improvement of companies' transparency is a step to the improved investment climate, both for domestic and foreign investors.

Our meeting within the framework of this round table will enable us to identify and discuss obstacles hampering the promotion of transparency and disclosure practices.

In this context I would like to present my vision of the transparency and disclosure practices development on the basis of experience of Kyrgyz Republic.

I. Traditions of Transparency and Disclosure.

Kyrgyzstan has a disclosure system similar to that in other economies in transition, which is based on the Soviet approach to transparency.

Although in recent years, the government's efforts in legislation and regulation reform resulted in certain positive trend in disclosure practices, one can state that the development dynamics leaves much to be desired.

This is primarily due to two major problems:

- ⇒ Managers' poor understanding of the need of disclosure as a tool to attract investment resources;
- ⇒ Weak efforts of the shareholders to protect their rights for information;

The basis of these weaknesses, of course, lies somewhere deep in our consciousness. Here we can generally speak of the lack of "culture of transparency," a phenomenon existing in the community overall.

It takes time to raise this culture. Nevertheless, step by step, market reforms destroy our Soviet-time mentality in this area. Amongst many companies, there emerge corporate entities, which, thanks to the proper disclosure and transparency policies, manage to attract investment resources. Community, companies and shareholders, gradually begin to realize that disclosure represents a powerful business development tool.

In what way could we facilitate implementation of effective disclosure practices?

- To improve legislative requirements to disclosure;
- Further improve regulatory instruments;
- And, finally, no matter how conventional it may sound, it is important to create public awareness and promote disclosure and transparency practices on the broad scale.

II. Implementation of international disclosure standards, pace of reform.

The importance of accounting for the effective disclosure and transparency is beyond question. Of course, accounting standards enable the global investment community speak the same language and adopt investment decisions efficiently.

In my view, at the initial stage of economic reform, this important issue was somewhat overlooked. If we look broadly at the context of all critical steps in the area of economic reform, this becomes evident from the table below.

Table 2. Time Gap of Corporate Governance-related Reforms.

	93	94	95	96	97	98	99	00
Privatization								
Banking System								
Securities Market								
Accounting								
Audit System								
Evaluation/Assessment								
Arbitration Court System								
Bankruptcy System								

Certainly, if we take a look along the vertical, year after year, we couldn't speak of the existence of the genuine corporate governance. This is due to many problems, including those in accounting.

In 1998, Kyrgyzstan government adopted 18 national accounting standards. Then, very weak efforts to institutionalize further steps followed. At that time, the public and professional sectors were rather weak, and there was no single government body to take responsibility over the implementation of accounting reform.

What were the consequences of such weakness in this issue? 18 standards were the first step, the next step should have been the development of methodology to transform these standards. Unfortunately, as of today, even though many private companies are prepared to use international standards, the state machine is not ready to coordinate the process (tax authorities etc.) In other words, this problem is primarily connected to the lack of methodology to transform old accounting practices to new accounting standards.

Last year, the National Financial Reporting Standard Commission was set up, under supervision of the President of Kyrgyz Republic. Moreover, professional associations of accountants are actively developing. All this is sure to give a powerful impetus to the full and quick adoption of international accounting standards in Kyrgyzstan.

These are just a few of the problems in the area of new accounting standards introduction.

This work requires a comprehensive approach, which would enable to address all aspects, including institutional, legislative and regulatory, in the promotion of new accounting standards.

III. Timely disclosure of essential information.

An important aspect of a properly operating company, or its corporate governance, is timeliness, accuracy and completeness of information.

Amongst the universe of businesses in Kyrgyzstan, there are companies that use information tools in their business development most effectively. This includes preparation of annual reports with the most complete and meaningful information describing operations of the company. A very important step is publication of annual reports in printed mass media. In other words, not only these companies comply with the main legal requirements as regards timeliness of reporting before the state and shareholders, they also help to promote new understanding of business.

Regretfully, there is just a handful of such businesses.

What is this related to?

1. Vagueness of legislative requirements to reporting.
2. Lack of clear requirements to the content of information.
3. Poor culture of contemporary business.
4. Public mentality.

Likewise, the situation with the disclosure of non-financial information is not comforting either. Lack of transparency in non-financial information scares off foreign investors, moreover, it seriously hinders domestic investment.

What are these hindrances?

They include a lack of the following corporate information:

- Ownership structure
- Voting rights
- Members of the Management and Supervisory Boards
- Management Remuneration
- Disclosure mechanisms

IV. Disclosure monitoring and supervision

Recognition of the Supervisory Body's role in company's operation is just beginning to grow. Of course, its position in the presenting of accurate and faithful information by the company to market participants is very important. It is crucial to welcome and support these efforts.

External independent auditor is the one to play a critical role in the monitoring and supervision of disclosure.

It is important to note that the adoption of the law on audit has created the basis for rapid growth of auditor activities in Kyrgyzstan. A significant number of corporate entities outsource auditor companies for an independent monitoring.

This is primarily related to the statutory requirement to conduct audit of joint-stock companies annually. The most important thing in this process is that many corporate entities fail to fully recognize the importance of audit for business operations, and just follow the letter of the law. In other words, they undertake audit checks, because the law obliges them to do so. Unfortunately, however, in practice they

frequently end up finding a loyal auditor to issue a favorable report, rather than undertake high-quality independent check of their business's financial performance.

What are the reasons?

- Once again, a poor business culture
- Lack of clear regulation of independent auditor attraction, either this is management, or a supervisory board or shareholders.
- Auditor business in embryonic state.

However, in any case, we could point out some very positive trends in audit activities in Kyrgyzstan. Stable and reputable auditor firms appear in the market. Step by step, public comes to understanding of the role of audit in business. Auditor community attempts to network and associate professionally

V. Enforcement of disclosure standards.

In my view, the most important thing is the promotion of business environment with high requirement to comply with disclosure standards. Securities market is to play a tremendous role in this process. If a company plans to develop business and attract investment resources, it has to play by disclosure rules.

In countries in transition, compliance with disclosure standards will greatly depend on concerted interaction between the standard-setting bodies, professional self-regulating organizations, joint-stock companies, investment community, and mass media, whose role in this process may hardly be overestimated.

Conclusion

Review of one aspect of corporate governance – disclosure and transparency – is the hot issue of today. Of course, the development of this issue will be related closely to other, not less important aspects of corporate governance, such as:

- Judicial system;
- Securities market;
- Assessment activities;
- Banking system etc.

The countries will be in a position to effectively develop their economies, if they solve the whole set of problems in the area of corporate governance.

It is important to note that the most important element of corporate governance development is the local business environment within the country. If the business environment is enabling, the companies will need investment, and consequently, they will attempt to conform with the high standards of running their businesses, or corporate governance. Investors and broad public will both contribute resources to businesses, and thus the economic machine of interaction will begin to operate.

Therefore, I would suggest the following motto for our corporate governance roundtables:

Economic development through the prism of corporate governance