



# **2nd Meeting of the Eurasian Corporate Governance Roundtable**

Sheraton Metechi Palace Hotel  
Tbilisi, Georgia  
7-8 June 2001



## *Transparency and Disclosure*

### **SURVEY – Georgia**

by

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hosted by

**The National Securities Commission of Georgia  
The Georgian Stock Exchange**

**International Regional Federation of Accountants and Auditors Eurasia**

with the support of



**The Government of Japan  
The Global Corporate Governance Forum**

*A. What is the role of your institutions regarding financial and non-financial disclosure?*

**1. What is the role of your institution in establishing disclosure standards (specify)?**

**The Georgian Stock Exchange (GSE) does not establish disclosure standards. This is the authority of the National Securities Commission of Georgia (NSCG).**

**2. What is the role of your institution in enforcing disclosure rules/ regulations (specify)? What sanctions can it impose?**

The disclosure information is contained in the following GSE regulations:

- *Regulation on the Admission of Securities to the Trading System and Listing of the Georgian Stock Exchange;*
- Rule on Owner Members of the Georgian Stock Exchange;
- Code of Ethics.

As an SRO, the GSE supervises compliance of its members with the disclosure rules and regulations and is authorized to apply sanctions contemplated in the rules against the members.

**3. What are your institution's other roles and responsibilities (i.e. licensing, training, etc.)?**

**The GSE periodically conducts Trading System Training Courses for the brokers. At the completion of training, provided that necessary certification is passed, the brokers receive qualification certificates.**

*B. Country Background Information*

**1. Number of Joint Stock Companies:**

1.1. There are about 1500 joint stock companies (JSC) in Georgia, of which about 400 with more than 100 shareholders – so called Reporting Companies. 272 of these JSCs are admitted to the Georgian Stock Exchange (GSE) Trading System.

1.2. Closed joint stock companies are not introduced in Georgian legislation. However, JSCs with less than 100 shareholders are less open and transparent since they are not subject to reporting requirements as Reporting Companies (see B1.1 and C1.) are.

*C. Does the corporate governance framework ensure that timely and accurate disclosure is made on all matters regarding the corporation?*

**1. Is the company required to prepare annual (or more frequent) audited financial statements showing the financial performance and the financial situation of the company?**

The joint stock companies (JSCs), which are deemed to be Reporting Companies under the Law on Securities Market (the Law) are required to file annual, semi-annual and current reports with the National Securities Commission of Georgia (the "Commission") and a Stock Exchange (Stock Exchanges in

Georgia should operate as SROs) where their securities are traded. These reports contain audited financial reports as well. These requirements are not fully applied in practice. The members of the managing body of the Reporting Companies deviating from these requirements are required to pay the fines established by the Law on Administrative Offences (up to GEL 5000 – each member).

**2. Is consolidated financial reporting required for corporate groups? On what basis?**

No

**3. Is the company required to include in annual reports:**

**3.1 Company objectives and strategy?**

Under the Law, the JSCs are required to include their objectives and strategy in the annual reports. This is partly applied in practice. The Commission is authorized to impose penalties on managing body members for the submission of incomplete reports.

**3.2 Major share ownership and voting rights?**

Under the Law, the JSCs are required to include major share ownership and voting rights in the annual reports. This is partly applied in practice. The Commission is authorized to impose fines on managing body members for the submission of incomplete reports.

**3.3 Related party transactions (management’s direct or indirect interest in any material transaction to which the company or any of its subsidiaries was or is to be a party)?**

The related party transactions in the JSCs are regulated by the legislation. This is partly applied in practice. Certain sanctions are stipulated under the legislation (e.g. revocation of voting rights at the nearest meeting).

**3.4 The identity and the professional background of board members and key executives, and their individual or collective remuneration?**

The legislation stipulates that the identity and professional background of managing body members be included in the annual reports. This is partly applied in practice. The Commission is authorized to impose fines on managing body members for the submission of incomplete reports.

**3.5 Directors’ and key executives’ ownership interest in company shares?**

The Law also requires that the JSC managing body members disclose their ownership interest in the company and file the report with the Commission. This is rarely applied in practice. The Commission is authorized to impose fines on managing body members for the submission of incomplete reports.

**3.6 Material foreseeable risk factors (trends or uncertainties that are expected to have or have had a material impact on the company)?**

The Law requires that the risk factors be included in the JSC annual reports. This is partly applied in practice. The Commission is authorized to impose fines on managing body members for the submission of incomplete reports.

**3.7 Material issues regarding employees and other stakeholders (management-employee relations, business ethics, environment, or other public policy concerns)?**

Not applicable.

**3.8 The governance / organizational structure of the company (i.e. key positions in the company)?**

The company law (Law on Entrepreneurs) strictly regulates governance and organization structure of the company. As a rule, this is completely applied in practice. It is impossible to deviate from these requirements, otherwise a company cannot be registered.

**3.9 An analysis of the company's operational results?**

The legislation requires that an analysis of the company's operational results be included in the annual reports. This is partly applied in practice. The Commission is authorized to impose fines on managing body members for the submission of incomplete reports.

**4. Is the company required to disclose extraordinary developments affecting the company (i.e. mergers/acquisitions, resignation of key executives, filing for bankruptcy, etc.)**

The legislation requires that a Current Report be prepared within 15 days of the occurrence of the material event. This is rarely applied in practice. The Commission is authorized to impose fines on managing body members for the submission of incomplete reports.

**5. What accounting standards are used?**

**5.1 Are companies required to prepare accounts in accordance with local or recognised International Accounting Standards (specify)?**

5.1 The JSCs prepare their accounts in accordance with IAS. In any other case, the accounting records are considered illegal. Deviation from this requirement entails penalty under the law.

**6. Are the annual reports required to be audited? If so how frequently and by whom?**

The legislation requires that the annual reports be audited. Audit can only be conducted by a licensed auditor. Without a compulsory auditor's opinion the accounts cannot be submitted. Deviation from this requirement entails penalty.

**7. What is the role of the board of directors in ensuring that the company complies with financial and non-financial disclosure requirements?**

The Georgian company law (Law on Entrepreneurs) introduces two level managing body: the Supervisory Board and Directors. The Supervisory Board exercises broad responsibilities in the management process of a company. This is prescribed by the company law (Law on Entrepreneurs). The Supervisory Board is required to submit its report to the annual meeting. Generally, the fiduciary duties of the Supervisory Board and of the Directors are similar relative to all significant matters. In practice, the Boards partly ensure the company's compliance with financial and non-financial disclosure. The legislation provides for the sanctions.

**8. What is the role of the management in ensuring that the company complies with financial and non-financial disclosure requirements?**

The Directors have broad responsibilities in the management process. This is prescribed by the company law (Law on Entrepreneurs). The directors are required to submit their reports to the annual meeting. In practice, the Directors rarely ensure the company's compliance with financial and non-financial disclosure. The legislation provides for the penalty sanctions.

**9. Are auditors required to be independent (e.g. no material relationships with the company including other fee-generating activities)? If so, how is independence defined? Who appoints the auditor?**

The Law on Audit Activity prohibits the auditors from engaging in other financial relationships with a company they service. The auditors are appointed by the General Meeting of shareholders. This is applied in practice and the deviation is sanctioned under the law.

**10. Are auditors liable (i.e. responsible) for negligence or other wrongdoing (specify)?**

During the period when an auditor is conducting audit of a company, he/she is fully liable for the negligence or wrongdoing. This is applied in practice and the law provides for the punishment mechanisms.

**11. Does the legal framework require companies to disclose to a specific range of users (i.e. SRO's, shareholders, securities regulators, etc.)? If so, does the legal framework distinguish what information must be disclosed to specific users and when this information must be disclosed?**

The Law establishes timeframes for the submission of reports by the JSCs to the Commission and the stock exchange where the securities of the company are traded.. An annual report should be filed within 90 days of the end of the fiscal year. A semi-annual report should be filed within 45 days of the end of the first half of the fiscal year and a current report - within 15 days of the occurrence of a material event. The information contained in and the form of the report is prescribed by the Commission's regulation. These reports shall be kept by Commission in public domain and be accessible upon request. Such filing of reports is partly applied in practice. The Commission is authorized to impose penalties on managing body members for violation of the reporting requirements.

**12. Do all shareholders receive a copy of the annual report and accounts or are they able to obtain them upon request?**

The shareholders have the right to receive information about the company, including a copy of the annual report. This is partly applied in practice.

**13. What are the channels of disclosure (i.e. dissemination through the press, over the internet, through the postal system)? Which are the most used?**

The reports can be received at the Commission or the Stock Exchange Office.

*D. What are the training needs and existing training facilities for accountants and auditors?*

- 1. Does the legal and regulatory framework specify the qualifications or recognition criteria that an accountant must satisfy in order to be certified as a public accountant?**

The Law of Georgia on Regulation of Accounting and Reporting specifies qualification requirements for professional accountants and their certification conditions.

- 2. Does company law or other laws and regulations specify the qualifications or recognition criteria that an auditor must satisfy in order to be able to conduct a statutory audit?**

The Law of Georgia on Audit Activity, as well as the Code of Ethics of an Auditor set qualifications that an auditor must satisfy in order to be able to conduct a statutory audit.

- 3. Are there sufficient training facilities for accountants and auditors (specify)?**

There are sufficient training facilities for accountants and auditors. The Training Center of the Federation of Professional Accountants and Auditors delivers training to accountants on an annual basis.

- 4. Do local auditors have sufficient training and resources to conduct audits according to internationally used auditing standards? Are they sufficiently familiar with International Accounting Standards? If so, how do they gain such knowledge and experience?**

The local auditors have sufficient training and resources to conduct audits. They gained necessary qualification in International Accounting Standards at the special training courses delivered by Sibley International and the Federation of Professional Accountants and Auditors.

- 5. Do companies have a dedicated accounting department? If so, does this department employ certified accountants? Who supervises the work of the accounting department?**

The companies have such an accounting department. An accountant is supervised by a JSC Director.

- 6. Do internal accountants have sufficient training and resources to prepare annual accounts according to International Accounting Standards?**

The internal accountants have sufficient training and resources to prepare annual accounts.

- 7. What is the total number of certified accountants? How many accountants are certified yearly?**  
At present, there are approximately 160 certified accountants.

- 8. How many certified accountants engage in auditing functions on a full-time basis? (i.e. what is the total number of licensed auditors?)**

As of January 1, 2001 there are 511 licensed auditors and 27 certified accountants engaged in auditing functions.