



**Organisation for Economic Co-operation and Development**

**Investment Compact**  
**South East Europe**

**In co-operation with the World Bank Group**

**SOUTH-EASTERN EUROPE**  
**CORPORATE GOVERNANCE ROUNDTABLE**

**Transparency and Disclosure:**  
**Implementation and Enforcement**

***Meeting Hosted By***  
**Macedonia Corporate Governance Council**

***Sponsored By***



**Ohrid, Former Yugoslav Republic of Macedonia**  
**10-11 June 2004**

**Session 7: Improving the disclosure of beneficial ownership and control**

***Nondas Metaxas, General Director, CEO, Cyprus Stock Exchange***

## PROBLEMS OF PRIVATISATION IN SERBIA with indications of solution

Ladies and Gentlemen,

Please allow me to thank Macedonian Corporate Governance Council, the hosts of this roundtable. Above all I would like to thank the Organisation for Economic Co-operation and Development as well as the World Bank Group for giving me the opportunity to speak in this session about the improvement of disclosure of beneficial ownership and control.

As of 1<sup>st</sup> of May 2004, Cyprus is a full member-state of the European Union. Cyprus as the crossroad of three continents has traditionally maintained close political, trading and cultural ties with the countries of the Middle East region, as well as with the countries of Central and Eastern Europe. In this sense, as an EU member state, Cyprus has become a bridge connecting united Europe with Middle East, or in other words through Cyprus, Europe has been very near to the Middle East.

The economy of Cyprus has always been market-oriented, with the private sector playing the dominant role in the production sphere. Our government's role focuses on the creation of a favorable entrepreneurial climate, through the maintenance of conditions of macroeconomic stability, the upgrading of socio-economic and legal infrastructure, and the pursuit of sustainable development.

The International Monetary Fund (IMF) mentions, with regard to the situation of the Cyprus economy, in its report on 31<sup>st</sup> of January 2003, that "over the last two decades economic performance has been impressive, with GDP per capita rapidly approaching the average level of EU countries. Strong growth has kept the unemployment rate below 4% for the past two decades, inflation has remained under control, and the fiscal deficit has averaged below 3.5% of GDP during the past decade".

The size and rate of growth of the services sector, which has been the fastest in recent years, has led some observers to call Cyprus a "service economy". The services sector of the Cypriot economy includes a wide range of services such as banking and financial services,

insurance, advertising, legal, architecture and civil engineering, film production, market research, medical, printing and publishing, public relations, education, software development, tourism and related services, telecommunications, transportation and other services. Cyprus has also been developed as an international shipping center for the conduct of maritime activities and the rendering of shipping services worldwide. It ranks sixth in the list of leading maritime nations, with a fleet of 2,700 vessels of over 26 million gross tonnages.

The Cyprus Stock Exchange (CSE) started its operations as a legal entity in the form of a public corporate body on the 29<sup>th</sup> of March of 1996, by virtue of the Cyprus Stock Exchange Laws and Regulations, which had been passed by the House of Representatives in 1993 and 1995 respectively. The Cyprus Securities and Exchange Commission (SEC) supervises the Cyprus securities market.

The Cyprus Stock Exchange is a regulated Exchange where all transactions concerning corporate and public securities are carried out. The securities traded on the Exchange, are shares, warrants, corporate bonds (straight and convertible), treasury bills, and government bonds. The main participants in the market are the Members of the Stock Exchange (stock brokerage firms), the listed issuers and the investors (institutional and private).

The CSE aims to establish close relations and co-operation with all Stock Markets in the region, as well as to further expand to the wide European and international environment to attract foreign investors and companies for listing and be advanced, as a developed and promising market, based on strong foundations and modern infrastructure.

During the last three years, the relationship and the links between Cyprus and Athens Stock Exchange were strengthened, regarding continuous exchange of know-how, technology issue, issues like the establishment of a derivatives market in Cyprus, and the dual listing of securities to both Stock Exchanges. This was a further step for the prospects of the CSE for improvement and development in the framework of the conclusion of strategic synergies, with other Stock Exchanges. CSE has signed a protocol with Athens Stock Exchange in 2002 by which the existing cooperation, which had been developed since 1996, was further strengthened. Additionally we have signed a Memorandum of Understanding with Cairo and Alexandria Stock Exchanges, specifically in issues regarding dual listings and common trading.

Among the important developments in this direction was the launching on the 2<sup>nd</sup> of December 2000 of the entirely new index FTSE/CySE20, which was prepared in co-operation with FTSE International organisation. The Index, which was developed according to international standards, consists of the 20 most tradable listed shares with the biggest market capitalisation and with adequate free float of their shares. It is also comparable to corresponding international indices and offers to investors, a very good picture of the trend in the listed securities. Also in June 2003, the FTSE Med 100 Index was designed to represent the performance of the largest companies in the Mediterranean markets and was officially launched. Initial markets will comprise Cyprus, Greece and Israel. The Index is suitable for derivatives trading. The base currency for the FTSE Med 100 Index is Euro.

Cyprus as the Secretariat of the Index, would very gladly forward to our partners in this project, any interest for joining the FTSE Med100 Index by the Stock Exchanges in the area. If there is an interest to this direction please note that we are at your disposal to discuss the whole issue.

The CSE believes that transparency and information dissemination is very important in a securities market because it protects investors and keeps them well informed of any listed issuer's current activities, developments and future prospects in order to take investment decisions. New legislation and amendments to the existing Stock Exchange Law and Regulations were passed, in the framework of harmonisation with relevant European Union directives and the continuously changeable international developments.

Within the framework of its constant upgrading, the CSE on September 2002 issued the Code of Corporate Governance. The aim of the Code is the strengthening of the monitoring role of the Board of Directors, the protection of minority shareholders, the adoption of greater transparency and the provision of timely information, as well as the safeguarding of the independence of the Board of Directors, in decision – making. It is based on OECD (Organisation for Economic Co-operation and Development) principles regarding Corporate Governance and on the basic principles of the relevant Codes of other European markets. Its implementation is not mandatory for the listed companies. Listed companies have an obligation to report in their

Annual Report, the extent of their adherence to the Code (comply or explain approach). It should be noted that Corporate Governance provisions, form one of the main pillars of trust in mature markets and is very important for the stabilisation and development of the CSE. Cyprus Stock Exchange and especially the Corporate Governance Committee monitors continuously the Corporate Governance Code, which is non-static but is a dynamic Code. In this context, the Corporate Governance Committee (which is chaired by the Chairman of the Council of the CSE and comprised from 7 executive members representing Cyprus and Athens Securities and Exchange Commissions, the Institute of Certified Public Accountants of Cyprus, the Association of Public Companies of Cyprus and the Cyprus Stock Exchange Members Association), issued an addendum of the Code in November 2003 based on international trends on Corporate Governance. Furthermore, the CSE has been organising seminars on the Code of Corporate Governance in order to support listed companies to implement the Code and comply with its provisions.

Systems of corporate governance vary from country to country and change over time. These systems grow up in close interplay between economic and political forces, and they encompass not just company law and securities law, but also guidelines of regulatory agencies and self-regulatory bodies, the decisions of the courts, the banking system, media coverage and much else besides.

The systems are driven by their own internal logic, in which the different parts interact and where a single component can have a decisive impact on the ability of the entire system to function and survive.

The Cyprus corporate governance system is comprised of relevant sections derived from:

- (a) Cyprus Company Law (chapter 113)
- (b) The Cyprus Stock Exchange Law and Regulations (1993-2003)
- (c) Insider Dealing Law and Regulations
- (d) Circulars issued by the Cyprus Stock Exchange and/ or the Securities and Exchange Commission
- (e) The Corporate Governance Code issued by the Cyprus Stock Exchange on September 2002.

The Corporate Governance Code, which was introduced in September 2002 by the Cyprus Stock Exchange, includes issues regarding disclosure. The provision D.2.5. of the Code states that: "Shareholders should be given timely and precise information about all essential issues concerning the company, including its financial situation, performance, ownership and corporate governance. This information should include among other the following essential information:

- (a) Financial statements of the company
- (b) Any new activities of the company
- (c) Major shareholders and their voting rights
- (d) Basic foreseeable dangers
- (e) Basic issues concerning employees (upgrading and reallocation of personnel) and shareholders
- (f) Structure of governance and policies
- (g) Extra-ordinary transactions of the Company"

The Cyprus Stock Exchange Law (1993-2003) and especially section 60(3) regulates mainly the disclosure of beneficial ownership and control. According to this section of the Law, the Chairman and the members of the Board of Directors, the General Manager, the Secretary, the auditors and the employees' provident funds of a company which has listed its securities on the Stock Exchange, if they own directly or indirectly with their associated persons as defined in Section 60(4), a percentage of 5% or above securities of the listed company, are obliged to declare this fact to the Securities and Exchange Commission and the Council of the Cyprus Stock Exchange. This declaration must be made before the commencement of the trading session, which takes place the next working day. In the same manner and within the same time limit any other transaction of the above persons, which concerns securities of the company, is declared.

According to Section 60(4) associated persons are deemed to be:

- (a) Persons who hold securities in their name but on behalf of any of the persons mentioned in section 60(3)
- (b) Undertakings controlled (50 + 1 voting rights) by any of the persons mentioned in section 60(3)
- (c) "Persons acting in concert" with any of the persons mentioned in section 60(3) like:

- The spouse and blood relatives up to the first degree
- A company in which the person mentioned in section 60(3) owns directly or indirectly at least 20% of the voting rights at a General Meeting and
- Provident funds of a company of any of the persons mentioned in section 60(3)
- Partners of any of the persons mentioned in section 60(3)

The accession of Cyprus to the European Union on May the 1<sup>st</sup>, 2004 has and will provide substantial changes to the political as well to the economic- financial environment of Cyprus. The Cyprus Stock Exchange Law and Regulations are following all developments in the European Union. Specifically at present they are under revision in order to be aligned with the "Prospectus Directive" and the new "Transparency Directive" and ISD (Provision of Financial Services Directive).

Within the same framework, the circulation of the "European Prospectus", that will provide a single passport as far as it concerns the circulation of Prospectuses in the European Union, is considered to be a very important development.

Also note that Cyprus has been following International Accounting Standards since 1995. Therefore the Cyprus Stock Exchange is one of the first Stock Exchanges worldwide that since its operation in 1996, enforced the application of the International Financial Reporting for all listed companies. Member countries of EU will be obliged to apply the International Financial Reporting by the end of the year 2005 – following the enactment of a relevant European Union Directive. CSE is available to give its know-how on this issue to any interested party and especially to the Stock Exchanges of our region.

The new "transparency directive" states that "The home Member State should ensure that, where a shareholder acquires or disposes of shares of an issuer whose shares are admitted to trading on a regulated market and to which voting rights are attached, such shareholder notifies the issuer of the proportion of voting rights of the issuer held by the shareholder as a result of the acquisition or disposal where that proportion reaches, exceeds or falls below the thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%. The voting rights shall be calculated on the basis of all shares to which voting rights are attached even if the exercise thereof is suspended. Moreover this information must be given also in respect of all shares

which are in the same class and to which voting rights are attached”.

According to this Directive, not only do the shareholders have an obligation to notify the issuer of the proportion of their voting rights, where that proportion reaches, exceeds or falls below the thresholds provided above, but also the issuer shall make public such changes in the ownership of its shares, not later than four trading days following such acquisition or disposal. The Cyprus Stock Exchange is always trying to improve the disclosure of beneficial ownership and control as well as other matters concerning corporate governance. Moreover, one of its major aims is the continuous protection of investors through internal controls that are been made from the managerial staff of the listed companies (internal audit, AGM, etc).

In the European region according to the action plan that was prepared for financial services, based on the decisions of the Lamfalussy Committee, a framework of legal procedures was prepared so as to lead to the completeness and the maximum unification of European markets. Based on these, European Directives were forwarded, such as the ISD Directive (provision of financial services), that it has as main target the further harmonisation of the national law of the member states of the E.U., allowing at the same time the active participation of the investment firms in the wider geographic area of European Union. Specifically this Directive focuses on the increase of competition, the demand for more investment options, the further safeguard of investors as well as the reduction of the cost of transactions.

The CSE has introduced on the 23<sup>rd</sup> of July 2001, a fully computerised system, which consists of a Central Registry and Central Depository, automating the clearing and settlement procedures. Securities are dematerialised and the transfers of securities as well as any corporate actions are run through a central electronic system at the Stock Exchange.

Finally, by the end of November 2003, CSE allowed its members to house their specialist operations in their own offices, and accordingly to reduce there cost structure very significantly. The ability to use an electronic interface and maintain a trading desk at their headquarters represents a considerable savings over establishing and running a remote trading operation. This, in turn, decreases its members' operating costs and improves profitability - a distinct advantage in an increasingly competitive industry.

The intense and dynamic presence of the CSE in the Cyprus economy is unquestionable, strengthening in this way the institution as a vehicle of attracting productive sources. The Cyprus Stock Exchange like every other Stock Exchange is dynamic and non-static. Our vision is



to broaden CSE horizons and place it within the mature European markets.

Cyprus Stock Exchange has recently finalised its strategic plan for 2004 – 2006 that has as its objective its promotion in the wider geographical region of Cyprus, as well in the European area, as an important exchange that will increase further the financial and trading companies image in the region.

CSEs Development Programs for the abovementioned period include among other:

- (a) The introduction of three new markets in the Stock Exchange (The Main Market, the Parallel and the Alternative Market) that will upgrade the status of the listed companies as well as of the market, implementing simultaneously common practices that are used in European Stock Markets, thus providing better quality criteria for the Cyprus Stock Market.
- (b) The introduction of classification of the listed companies with an international system that is worldwide used by the FTSE Organisation.
- (c) The investigation and possible implementation of a Common Trading Platform between the Athens Stock Exchange and the Cyprus Stock Exchange. The implementation of this project will widen the selection between Cypriot and Greek investors with the ability of simultaneously investing in listed companies at both Exchanges. Moreover it will safeguard the increase in liquidity and competitiveness between the two Exchanges.

What we are faced with at present, is a wide range of challenges, opportunities and threats, which make the creation of alliances and synergies among Stock Exchanges, especially the ones which are geographically placed within the same region, a prerequisite.

The strengthening of such co-operation becomes more significant and valuable within the global and competitive environment in the area of Stock Exchanges and investments, in general.

We are firmly proceeding with plans to keep the Cyprus Stock Exchange as a front liner in its field of activity in the international field. The dynamism of our market and the proven ability of Cyprus to accept challenges are cause for confidence and justified expectations for future progress.