SOUTH EAST EUROPE
IMPLEMENTING AND ENFORCING INTERNATIONAL STANDARDS FOR FINANCIAL REPORTING AND AUDITING

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Introduction

Corporate Governance, particularly transparency and disclosure in financial reporting and effective enforcement for South East Europe is important and challenging. During the last several years several governmental and non-governmental institutions have been actively engaged within the region working closely with the regional governments and NGOs in order to develop a democratic and economically prosperous region. We have yet to reach this goal due to the severity of the structural, institutional, and cultural environment however, significant inroads have been made. There is continuing active engagement with the region by developed countries which provides an important positive exchange of information and support. Countries are moving forward in the region but at a slower than expected pace.

Guidance in corporate governance has been provided by the World Bank and OECD through regional contact and support. In addition, several other institutions have been active in the region in the area of finance, accounting and audit reform such as USAID, European Union, French Accounting Associations and the UK accounting associations. This co-operative effort has been successful in bringing corporate governance and accounting best practices to the region, helping to identify areas of weakness and gaps in the economic system and by providing solutions and technical support. The regional governments and institutions have made progress in reviewing their laws and regulations and introducing necessary change in order to bring the countries more into alignment with global best practices. The difficulty is that global best practices in this area is a moving target and requires constant monitoring and regulatory and structural adjustments. There is an incentive for the SEE countries as EU membership is the common goal.

While most of the countries in the region have in place the legal and regulatory framework that should lead to compliance with corporate governance best practices, weaknesses continue to exist within the system that results in increased risk to investors and an impediment to an adequate flow of investment into the region. This problem can best be attributed to structural weakness within the economic systems and cultural conditions. These problems act as a barrier to actual or perceived risks to investment. As a result of these barriers investments are redirected elsewhere.

Critical to generating investment is a communication system of information which has adequate protections and safeguards built in to protect and to fully inform the investor. A system of transparency and disclosure not only informs the investor but should discourage improper management or conduct by those with fiduciary responsibility.

Corruption and the Accountants Role

The region continues to suffer from actual and perceived levels of financial risk for outside investors and domestic minority investors. This risk can best be attributed to the regions problem with corruption, regulatory compliance and enforcement. There continues to be a system and cultural acceptance that the only way to properly operate within the region is to assume that bribes and other payments must be made in order to conduct business within the region at both high and low levels within the government and outside government. Minority shareholders have had little recourse and are at the mercy of either management or the controlling shareholders.

Even if regulation is in place that protects shareholders which is often the case, access to legal protection is often too costly or administratively prohibitive. An active and strong investment environment requires that the investor population is adequately protected from the management, board, or controlling shareholder manipulation. For SEE countries this may also include government and political manipulation since there is still a large state ownership component remaining.

Accountants and auditors have a vital role in the prevention and the detection of corruption. Embedded within the OECD Convention on bribery (Article 8 & the Amendment) includes a section that places a duty on a country's legal system to require the recording of transactions (books and records provision) in sufficient detail with adequate supporting documentation that identifies the purpose of the transaction. For parent companies with several subsidiaries in various jurisdictions, compliance with the convention requires an accounting of these transactions for the entire consolidated entity.

State Ownership and Corporate Governance

State owned or partial state owned entities have generally fallen under the radar screen when it came to corporate governance compliance requirements. However, just as there is a public interest argument for listed companies to have good governance, those entities that are owned by the state (as the state is really a representation of the people and is accountable to the people in a

democracy) should not be excluded from the same corporate governance requirements as public companies. The countries should include within their legal and regulatory corporate governance requirements codes of conduct, internal controls, international accounting, an independent audit and full disclosure for state owned entities. Board makeup and board independence may or may not be an exception due to governmental control and possible national interest issues.

Good governance for state owned enterprises would reduce corruption, improve transparency and should add value to the enterprise assets. Enhanced enterprise value creates wealth to the government and improves the likelihood of greater value if or when the entity is privatized.

The Transitional Role of the Profession and Government in Oversight

Professional oversight of auditors has been in transition during the last few years. Originally, international policy for accounting and audit in transition countries was to encourage self-regulatory organizations to provide oversight and supervision. It was assumed that the profession could be responsible for policing themselves so projects focused on association development and encouraging minimal governmental intervention. However, all this changed after 2001 when it was discovered that the self-regulation had become primarily a check the box concept and the profession had become closed and protective. As financial statements were discovered to be a false and often a fraudulently prepared presentation to authorities and the investors, the integrity of the profession was compromised. Investigations into the advisory boards of these organizations revealed that they were filled with members who had conflicts and if they didn't have conflicts had become complacent in their oversight duties particularly as large audit firms expanded into lucrative but conflicting client services that were audited by their own firm. A clear conflict of interest existed but there was pressure for partners to generate profits over quality of service. Auditors ended up participating along with corporate executives in managing the earnings of the company to the detriment of investors. The lightning fast destruction of Arthur Andersen and their 80,000 employees reveled how important professional integrity is in the profession.

In response to the global outcry of investors who had been damaged by these acts a shift occurred that started bringing back the term "Public" in Certified Public Accountant. It was evident that if auditors were attesting to the financial information of a company to the public, that they would need to be brought closer to public supervision (government oversight). As a result, professional associations in some cases lost some of their oversight responsibilities and in some cases gained greater governmental intervention into their association.

Training, testing, and certification of the profession generally remains with the profession. However, it has been the government that has now been providing greater guidance on what qualifies as training, testing, and certification. Some countries (particularly civil law societies) have regulatory requirements built into their legal system that provides for the educational, experience requirements, reporting requirements, and other compliance requirements with the organization being responsible for carrying out these tasks. Laws are currently being more clearly defining of what the organizations may provide and there is now a level of enhanced accountability. The revision to the EU directives provides new guidance on auditor qualification.

Reporting Obligations and US Long-Arm Authority

Driving much of the change in corporate governance today is the passage of the United States Sarbanes-Oxley Act (SOX). This act has introduced significant new compliance requirements with substantial expansion of penalties for company management and auditor. As a result of this new requirement, regulatory oversight is being expanded globally due to the creation of the PCAOB (Public Company Accounting Oversight Board). The PCAOB has been legally empowered to place compliance requirements on all auditors (including foreign auditors of United States listed companies) that audit a listed United States company. There have been concerns from foreign auditors and foreign audit regulatory bodies regarding these new rules and how they will effect their own authority. If countries established their own PCAOB with comparable controls and compliance requirements, then the US PCAOB will accept their oversight. The EC is as a result of this, recommending that each country within the EU establish their own PCAOB. This decision will also effect any prospective country intent on joining the EU. However, while countries are forming their own PCAOB, Non-U.S. public accounting firms are still required to register with the PCAOB by July 19, 2004.

Why the United States PCAOB is so important in Europe

Under an agreement reached by Bill McDonough of the PCAOB and Fritz Bolkestein of the European Commission on March 25 of this year, there will be a sliding scale to determine the extent that the PCAOB will rely on the home country's oversight system. At one end of the scale, countries with a very rigorous and independent oversight system could expect that there would be no inspections by the PCAOB. This is partially contingent on a country's establishment of an independent oversight system, in accordance with the revised/amended 8th Directive.

For a foreign registered public accounting firm, it will be required to submit a written petition to the Board for an inspection that relies upon an inspection conducted by a home country system. The Petition will describe in detail the non-U.S. system's laws, rules and/or other information to assist the Board in Evaluating such system's independence and rigor. The petition should include documents that support the firm's description of the non-U.S. System and all documents submitted must be in English. Based on this information the Board would determine the degree, if any, to which the Board may rely on the non-U.S. inspection, and the Board would conduct its inspection under their rules in a manner that relies to that degree on the non-U.S. inspection. A decision by the Board under the proposed rule would apply only to the particular inspection of the particular firm that submitted the petition. However, as a practical matter, the Board's assessment of a non-U.S. system in a specific jurisdiction will most likely be the same for all non-U.S. firms within the authority of that system that submit within the same general time frame.

The Securities Commission role in the new Auditor Inspection process and policing legal and regulatory compliance

There has been substantial expansion of the governmental regulation and oversight of auditors and listed companies. As indicated above auditing standards have been removed from the AICPA (SRO) and are now placed in the control of the PCAOB. All auditing standards issued by the PCAOB must be approved by the SEC.

The PCAOB now has broad inspection authority. Every audit firm which audits listed companies must be registered with the PCAOB. The mandate of the PCAOB is to issue standards, inspect, and enforce. They have the authority to inspect the audit workpapers of the auditor and to impose penalties. One very important obligation of the PCAOB inspectors is the ability to inform the SEC of any financial statement disclosure deficiency that might be discovered during the inspection. The PCAOB does not have the authority to notify the company but will inform the auditor of the deficiency and will notify the SEC who then would have the ability to request information from the company or to launch an investigation.

Penalty Model under Sarbanes-Oxley

The changes made in the United States in response to the Enron/Andersen (and others) debacle have resulted in a public outcry for stronger punishment of those who would violate their responsibility to properly manage a company and in effect steal wealth from the company and the

investors who put their trust in the company. In the SEE region there also is generally a lack of trust that management will properly conduct themselves' and operate the company in the best interest of the shareholders. In response to the United States fiasco, congress introduced significant increases to their sanctions policy. The following represents some of the changes.

Corporate and Criminal Fraud- Criminal penalties can be imposed when a person destroys or creates evidence with the intent to obstruct an investigation by any federal agency. The new law imposes fines and imprisonment for up to 20 years. This applies to anyone who knowingly alters, destroys, mutilates, conceals, covers up, falsifies, or makes a false entry in any record, document, or tangible object. This applies to companies and to the auditors. In addition audit documentation must be kept for at least seven years, including documentation that may not agree with the final audit.

Nondischargability of judgments and debts if incurred as securities violations- In general within the United States it was possible for an individual to escape from debts and judgments imposed against that person by the legal system. However, the SOX provisions imposed a rather stiff sanction which if the judgment is not satisfied remains always with the perpetrator.

Criminal penalties for defrauding shareholders of publicly traded companies- A new federal crime was created called " securities fraud" in which a person who knowingly executes, or attempts to execute a scheme to defraud any person in connection with an issuer's security; or obtains, by means of false or fraudulent pretenses, representations, or promises, any money or property in connection with the purchase or sale of an issuer's security will be fined and/or imprisoned for not more than 25 years.

White Collar Crime Penalty-Attempts or conspires to commit mail fraud, wire fraud, bank fraud, health care fraud, and securities fraud is increased from 5 years to a maximum of 25 years. Furthermore if the fraud affects a financial institution the maximum term is up to 30 years. Note that the term "Attempts" was added indicating that it is not necessary for the act to actually happen but that it was attempted.

Corporate responsibility for financial reports- A CEO and CFO must now certify that the financial information fairly presents in all material respects the results of company operations. If an officer certifies a statement that the officer knows does not meet the requirements, this can

result in fines and imprisonment of up to 20 years. If a person certifies a statement knowing that a report does not meet all the requirements can be fined up to $1 million dollars and 10 years imprisonment. A person who willfully certifies a statement can be fined up to $5 million dollars and 20 years imprisonment.

Corporate Fraud and Accountability-Tampering with a witness, victim, or an informant, to corruptly alter, destroy, mutilate, or conceal a record, document, or other object with the intent to impair the object's integrity or availability for use in an official proceeding is a violation that can result in fines and/or imprisonment of up to 20 years.

Retaliation against informants- Retaliation against those who give information in a federal investigation can result in fines and imprisonment for up to 10 years. This applies for issuers, management, or whistleblowers.

Increase in fines under the Securities Exchange Act of 1934-Fines against individuals is increased from $1,000,000 to $2,500,000 and from $5,000,000 to $25,000,000 for anyone other than an individual.

Internal Control Reporting Responsibility

The Sarbanes-Oxley Act (SOX) section- 404 expanded the responsibility of management with the internal control and the appropriate documentation. Management must now:

1. Accept responsibility for and assess the effectiveness of internal control over financial reporting.
2. Assemble sufficient documentation as evidence of this assessment.
3. Present a written assessment as of the end of the company's fiscal year.

The documentation and the assessment report is critical. The Act states that if the documentation and the assessment are not present and adequate, the auditor must conclude that management has not fulfilled its responsibilities under the Act. While a written assessment report might be easy to produce, the company documentation through feedback from several companies subject to this requirement are discovering that the time and cost of developing, documenting, and testing the system is more time consuming and costly than anticipated.

Code of Ethics for Senior Financial Officers (SOX 406)

The Sarbanes-Oxley Act while it does not expressly require a code for senior management it does require that management disclose their code and if they do not have a code to explain why they do not have a code. The code is to promote:

1. honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
2. full, fair, accurate, timely, and understandable disclosure in the periodic reports required to be filed by the issuer; and
3. compliance with applicable governmental rules and regulations.

Code of ethics requirements within the region would improve the ability to change cultural habits for companies. The region should consider working on establishing a basic code framework for companies to follow. Express requirements that management is to comply with all rules and regulations should be included. There should be an express prohibition against bribes direct and indirect, monitory or non-monitory. Indirect payments would include family members, related or controlled companies. Consideration should be given to also mandate codes of conduct for all governmental representatives with an independent structure to investigate violations.

International Accounting Standards Responsibility

The full implementation of International Accounting Standards within the region should be considered a high priority. Each country within the region must introduce into their legal system a means of enforcing IFRS and a mechanism to address future changes to the standards. While global accounting policy comes from the international board, specific review, approval, and adoption into a specific country will need to come from an authorized institution within the country that will properly translate, introduce, and disseminate the standards to the appropriate regulatory authorities, companies, and professionals. Global best practices are leaning towards a country specific Accounting Standards Board that is independent from company, profession, and political manipulation.

Each country should commit to establishing their own independent accounting standards board which will monitor global accounting, actively work to introduce IFRS into their country, educate and work closely with governing bodies, companies, and associations.

Simplified Accounting Alternative

Should the countries of South East Europe consider an alternative accounting system for those companies not listed on the stock exchange? The current EU requirement is that all listed companies are to comply with IFRS by January 1, 2005. There is an extension date allowed that would extend this requirement to 2007. However, accounting for companies not listed, are still bound by the regulations of both the EC Directives and their individual country. For non-listed companies in the SEE region, consideration should be given to leaving the existing accounting for small and medium size companies alone for the short-term. The Directives of the EU provide for an exemption for SMEs. There should be a long-term plan for SME accounting that gradually introduces a more consistent but perhaps simplified accounting system. The concern is having adequate resources for the necessary training and education of company management, auditors, and government (ministry of finance and tax regulators).

Under the 4th and 7th Company Law Directives, Member States have the option of granting SMEs exemptions from certain financial reporting and disclosure requirements including the requirement of a statutory audit. The UK has introduced for a test period the FRSSE (Financial Reporting Standards for small and medium size entities), The IASB has on their agenda a plan to look at a simplified version of IASB, UNCTAD has issued a simplified accounting standard, the AICPA is studying the possibility of a simplified standard in the United States. There is some awareness by the standard setters of how increasingly complex accounting standards are becoming and the problem of resource limitations.

Specific Accounting Disclosure Issues

The OECD White Paper on corporate governance identified several problematic accounting weaknesses in the region. Among the problem areas identified included inflation accounting, undisclosed liabilities, asset valuations, related party transactions, lack of adequate allowance provisions, impairment rules, consolidation, and full disclosure of contingent liabilities.

Weaknesses continue to exist and will be a problem until there are adequate systems set up that provide independent inspection of company financial information. In addition laws need to be broadened to assure that companies comply with the substance of the law and are not able to navigate around the form of the law. This is often a problem in statutory societies. Navigating around the law is often possible particularly with related party transactions and consolidations where control and influence of a related entity may exist in substance but not by regulatory law.

Related party and beneficial ownership rules are often weak and fail to capture conflicts of interest and as a result these transactions fail to be disclosed. Strong monitoring and enforcement with adequate penalty provisions are needed to assure that company funds cannot be improperly diverted.

In some cases where a company was owned by the state or did business where the state supported the company in the interest of the state, in such cases where liabilities and accrued interest on these liabilities exist and the state has no intent to collect, these issues need to be negotiated and agreed to.

Financial statement netting may also be a problem where one company provides a product or a service to another and the other company provides services or a product back. This netting distorts a full and fair presentation of the financial information and under International Accounting Standards netting is prohibited.

Compensation (direct and indirect) particularly to executives is often masked within the accounts of the income statement. Documentation is often prepared to present an obtuse statement that attempts to avoid full disclosure of officer benefits.

International Standards of accounting on Asset Impairment needs to be closely examined. Unusually long regulatory depreciation schedules in the SEE region and the historically poor history of adequate maintenance of assets suggests coupled with the companies desire to maintain a healthy balance sheet suggests that special emphasis needs to be made by auditors and company authorities to properly account for a true and fair value of company assets.

Inflation accounting and prior revaluation adjustments need to be fully disclosed especially in a region where inflation has been an issue and where long-term assets of a company may have been revalued several times.

Accounting Standards Education

Most countries are currently suffering from a lack of accountants and auditors who are qualified to prepare reports based on (IFRS) international financial reporting standards. Each country in the region had their own accounting rules and regulations, some countries have standards based on generally accepted standards, some developed by statutory law solely for regulatory reporting

requirements by the ministry of finance or tax authorities. Challenges exist for both developed and transitional countries to generate a critical mass of qualified professionals since the standardization of accounting on a global basis is a relatively new phenomenon. It has only been since September 18, 2002 when the FASB and the IASB signed "The Norwalk Agreement" making an official statement that the two most dominant accounting standard making bodies would begin working toward compatibility. Both boards have agreed and are currently working in close coordination with each other on accounting standards. Each board now has a liaison representative with the other board. Some projects are actually progressing as official joint projects.

For countries of South East Europe this represents a more significant challenge to educate enough qualified accountants and auditors to produce accurate financial information. For SEE countries it would be advisable to focus primarily on companies listed on the stock exchanges. Listings in the region are generally sparse at this time suggesting that it should not be too difficult to currently have or train accountants and auditors to comply with IFRS. The Big-4 accounting firms are already within the region and should have qualified staff. For companies not listed on the stock exchange, compliance with existing accounting rules and regulations should be left alone for the short-term with a managed transition to more compliant reporting. Companies not listed but who have the intention to become listed should be given the option of either reporting in accordance with IFRS or report based on their existing accounting rules and regulations.

Companies listed on public exchanges should have access to the necessary resources and should be first to comply. Public companies have the highest fiduciary duty to the public to provide fair and full financial information on a timely basis. In addition companies such as banking institutions, insurance, and investment companies may in fact already be complying in the region through their banking law provisions. Companies with contractual relationships with the state and state owned enterprises should closely follow in conforming to international accounting with an independent audit.

For the SEE region, the next level would be non-listed companies that are not exempt (small companies). They may be exempt from certain compliance requirements and may not be required to be subjected to an audit based on international standards but may be subject to a statutory compliance audit based on the regulations of the specific country.

The New Role of IFAC in Europe

IFAC and the recently formed IAASB (International Auditing and Assurance Standards Board) will have a substantially enhanced role for the audit and audit process within the European Union. The proposed European Audit law *(Directive on the European Parliament and of the Council on statutory audit of annual accounts and consolidated accounts and amending Council Directives 78/660/EEC and 83/349/EEC)* relies on the IFAC code of ethics as a starting point. Auditing standards within the Union will be based on standards issued by the IAASB. While it appears that auditing standards in the EU may initially begin with the IAASB, it is unclear if the IAASB will have the final voice. Assuming that formation of oversight boards within the EU member countries follow the same path as the PCAOB, the individual oversight boards of the countries may assume the same role as they did in the United States of assuming total responsibility of audit standards for listed companies.

In conjunction with the added responsibility of IFAC and their role on global professional audit standards, at a July 2003 meeting, the IFAC Board approved a new IFAC Membership Compliance Program that provides compliance benchmarks to current and potential IFAC members. All current and future members of IFAC must comply with the newly introduced membership obligations.

Accounting and Audit Certification

Accounting certification may need to be separated into more than one qualification due to the practical appearance of a dual accounting system (One in compliance with IFRS and another for country statutory accounting) with the potential of multiple accounting certification programs. In addition while some countries include audit certification with accounting certification, this requirement particularly with the transition taking place on auditor oversight may change. The following possibilities exist;

1. Bookkeeping Certification
2. Accounting Certification (based on country statutory accounting)
3. Accounting Certification (qualified in IFRS)
4. Certified Auditor Qualification (qualified to audit non-listed companies)
5. Certified Auditor Qualification (qualified to audit listed companies based on IFRS)

Certification and perhaps licensing for countries intent on joining the European Union will need to comply with EU directives. The largest present certification population would probably be

category #2. This would represent the population of accountants educated, trained and certified under the prior accounting laws of the country. For the largest group of accountants and non-listed companies, consideration should be given to a long-term strategic transition to western accounting and auditing. Generally the certification of company books and records represent an importance only to government authorities and not to the public as listed companies would. For countries joining the EU there should be an awareness that companies that employee a large number of employees are considered to be of public interest and would require an audit, the level of such an audit (in compliance with International Auditing Standards in Accordance with IFRS and subject to oversight by the oversight board) will be subject to discussion. At the moment it is only consolidated listed companies within the EU that are required to comply with IFRS by January 1, 2005.

Tax accounting vs IFRS

Companies in the region usually are only concerned with required reporting for their respective governments (Ministry of Finance and Tax Authorities). It is important when planning the transition to International Standards to be aware of resource limitations. Burdens upon company compliance to a new accounting system in addition to other traditional legal and regulatory compliance requirements should be kept to a minimum if this is possible. Excessive administrative requirements will hinder competition both regionally and globally. It would be preferable to have a single set of reporting rules that would apply to all financial reporting requirements, particularly tax and ministry reporting. However, due to country specific tax policy and statistic date collection this is generally not feasible. In addition there is a problem of adequately trained government officials in international reporting. The only solution is that for the short-term companies at the highest tier (listed companies) will need to maintain and report financial information in multiple forms. Companies required to use IFRS may also be required to report tax and financial reporting based on their prior current tax accounting rules and financial reporting rules. Record keeping requirements such as transaction recording, ledger requirements might be able to be kept using a single system. The areas of highest concern might be with regulatory rules related to depreciation and amortization which are often different for book and tax. In such a case multiple sets of records will need to be kept.

Free movement of Accountants

In response to pressure placed on countries by the WTO to allow for the free trade and exchange of services, the European Union is probably the first group of countries that have legally opened

up the free movement and access for accounting and audit services. This provision allows for accountants to provide services for clients in other member countries provided they comply with specific country qualifications (passed an examination on the rules and regulations of the country and on the tax laws of the country). This provision of free movement of accounting services should be an advantage for Central and Eastern European Countries where the average wage level is significantly lower than Western European Countries. The difficulty for the professionals of the region will be in their ability to prove their competency level (training, testing, and certification) in International Accounting and Auditing. The country will be required to have in place a similar auditor oversight institution.

The Media and Disclosure

Full transparency and disclosure on a timely basis is still perceived as a problem in the region. All listed companies should be required to utilize internet technology to simultaneously disclose all information which is filed with the government authorities on their own web site. This would include annual and periodic financial information, large stock transactions, insider stock activity, and important company activity. In western countries, annual financial information is printed and mailed to registered shareholders. In SEE countries, the printing and mailing of this information may be cost prohibited thus making the usage of the internet of greater importance. Financial information should also be available at the company office for investors who have an interest and who may not have access to a computer. Disclosure should include information on any company investigations, litigation, and judicial decisions.

For listed companies, the Securities and Exchange Commission within their country should provide a public web site with information on all listed companies. A few years ago this might not have been possible but today it is a reasonable requirement. The site should also include information on companies that are not in compliance with Securities and Exchange filing and reporting requirements. The stock exchange itself should have a web site with information on their own corporate governance policies and to provide information on the companies using their exchange including any compliance issues.

The news media in the West plays a vital role in transparency and disclosure of company information. The United States and other countries have a highly developed news media in place represented by business journals, business magazines, dedicated business cable TV channels, and an extensive broker and analyst reporting system. The full compliment of these media vehicles

may not be viable at this time for the region, but there should be an awareness of this system. In addition, the large credit rating agencies have been expanding into the region and should provide additional due diligence and information. The available market in SEE countries is often limited and listed companies in the region should consider disclosing financial information in their language and also in one international language. Several of the larger listed companies, particularly those with significant investor participation by outside investors already provide such information in their annual and period reports in at least two languages.

Recommendations

1. Establish an independent accounting standards board. Independent from political influences, auditors, and companies.

2. Independent Public Accounting Oversight Body.

3. Sufficiently dissuasive sanctions in the form of fines and incarceration. This includes civil and criminal penalties. There has to be an active and independent monitoring and enforcement system in place. Penalties need to be significant enough that it is not possible to profit from illegal activities.

4. Require company codes of conduct. Codes of conduct (setting the tone at the top) that expressly prohibit illegal conduct or activity including bribery.

5. The creation of an independent compliance officer or compliance department that reports directly to the board with adequate whistle-blower protections.

6. Companies should be required to have in place a system of internal controls and internal control assessments over financial information.

7. Stronger management reporting requirements especially in the area of certifying that the company is complying with legal and regulatory requirements.

8. The establishment of a judicial system that is specialized in financial and economic litigation. This group would have special knowledge of financial issues.

9. Corporate governance requirements for state owned enterprises especially in the area of independent audits and financial disclosures.