I. General

The South East Europe Corporate Governance Roundtable was established in September 2001, and is organised by the OECD in co-operation with the World Bank Group and regional partners. It is also a Flagship Regional Program of the Investment Compact[1] and receives financial support from the Global Corporate Governance Forum. In 2003 the Roundtable issued a *White Paper* on Corporate Governance in South East Europe (SEE) to serve as the principal reference on corporate governance reform in the region.

The fifth meeting of the Roundtable took place on 10-11 June 2004 in Ohrid Macedonia and was hosted by the Macedonian Corporate Governance Council. The first day of the meeting reviewed corporate governance developments in Bulgaria, Macedonia, and Romania and also included a presentation of the *2004 OECD Principles of Corporate Governance*. The second day was a workshop on how to improve transparency and disclosure in the region, with an emphasis on improving the implementation and enforcement of existing requirements.

The Roundtable brought together a group of over 70 highly qualified senior policy-makers and private sector practitioners from a number of countries: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia (FYROM), Romania, Serbia and Montenegro, Greece, Spain, Turkey, the UK, and the US. Participants from international organisations included experts from the OECD secretariat, the United States Agency for International Development (USAID), and the Center for International Private Enterprise (CIPE). For the first time the Roundtable also included participants from Kosovo, in Serbia and Montenegro, and from the Cyprus Stock Exchange.

The meeting was opened by: Mr. Stevce Jakimovski, Minister of Economy, Former Yugoslav Republic of Macedonia; Mr. Mats Isaksson, Head of the Corporate Affairs Division at the OECD; Mr. Gregory Maassen, Head, USAID Macedonia Corporate Governance and Company Law Project; and Ljupcho Zikov, Chairman, Macedonia Corporate Governance Council. The opening remarks made clear both the continued need for improving corporate governance in the host country as well as South East Europe as a whole, but also the many challenges remaining. The speakers also emphasised the importance of the *White Paper* in facilitating reform at the national level.

Documentation from this and previous meetings, including agendas, presentations, and background papers can be found on the OECD Corporate Affairs website at www.oecd.org/daf/corporate-affairs.

II. Discussions and Main Conclusions

In the presentation of the *2004 OECD Principles of Corporate Governance*, the speakers explained how the *1999 Principles* had been revised to better reflect not only developments in OECD countries, but also the experiences of non-member countries, including those in South East Europe. The SEE region influenced the *Principles* both through the Roundtable, and a consultation in November 2003 in Paris that included representatives of SEE countries. Changes in the *Principles* include new requirements for institutional investors and financial intermediaries, stronger language on conflicts of interest and the protection of minority shareholder and, importantly for all countries participating in the Roundtables, a first chapter on the "corporate governance framework" that provides guidance on enforcement. The revisions are well timed, as corporate governance reform continues to advance in the region. For example,

[1] The Investment Compact, adopted in February 2000, is a vital part of economic reform activities to be carried out under Working Table II of the Stability Pact for South Eastern Europe, dealing with Economic Reconstruction, Co-operation and Development.

a discussant from Serbia emphasised the importance of the revised *Principles* for the shareholder owned companies being created there by large-scale privatisation.

The reviews of Bulgaria, FYROM and Romania, as well as comments made on other countries, confirm that substantial progress has been made in implementing the recommendations of the *White Paper*, but that significant challenges also remain. In Macedonia, there has been extensive reform, with speakers focusing particularly on the new company law, which was influenced by the *Principles* and the *White Paper*, developed by a drafting committee which included experts not only from Macedonia but also seven other countries, and which received input from 27 debates held around Macedonia. The stock exchange has also introduced new listing requirements. However, over 20 companies were delisted after these where introduced, and the stock market remains a platform for trading shares in privatised companies, not raising new capital, which may be many years away.

In a very extensive review of Romania presented at the meeting, a number of positive reforms were noted, including: progress in ownership consolidation using a new tender process; greater resources and budgetary stability for the National Securities Commission; better protection for creditors in a new bankruptcy law; requirements for all listed companies to comply with International Financial Reporting Standards (IFRS) combined with both stricter enforcement of and better compliance with disclosure standards; the creation of a new Corporate Governance Institute by the Bucharest Stock Exchange that will include a director training program; and new restrictions that prevent public officials from serving on the boards of commercial companies. However, it was also clear that the many reforms that have taken place have had a limited impact, and that proposed changes could actually weaken the corporate governance framework. In particular, the reviewer was concerned that a new law to bring Romanian capital market legislation closer to EU legislation might actually weaken certain protections for shareholders that are already in place.

The Bulgarian reviewer saw compliance with EU legislation as a positive for his country, and generally felt that the majority of the recommendations of the *White Paper* had been implemented in the law. He also felt that this broad reform effort had been reflected in the recent strong performance of the stock market. Specific achievements include: the creation of a new Financial Services Commission with enhance powers; requirements that public companies have corporate governance programmes and investor relations departments; new shareholder rights with respect to major and related party transactions; clarification of directors duties and requirements for $1/3^{rd}$ of the board to be independent; new accounting and auditing laws that require IFRS implementation and that have been combined with training programs for accountants and auditors; and disclosure requirements for significant events. Overall however a number of challenges where also noted, and it was emphasised that it will take time to absorb all the recent changes to the law and realise their full impact.

The Bulgarian case was also compared to the Bosnian one. The principal difference between the two countries is Bosnia's complex federal structure, and two separate corporate governance systems. Bulgaria has also gone farther in implementing the recommendations of the *White Paper.* However, similarities between the two countries were also noted, in particular weaknesses in terms of implementation and enforcement, and the need to reform the judiciary and better involve the private sector.

The second day of the Roundtable meeting was a workshop on better implementation and enforcement of requirements for transparency and disclosure. The first session discussed international standards for accounting and auditing. All countries in the region are in the process implementing IFRS for at least some companies, but there are differences in companies covered, how standards are phased in, and how they are actually enforced. Speakers pointed out that national authorities also need to consider how adopting IAS will impact the disclosure regime for state owned enterprises and unlisted companies.

Another important issue highlighted in the session was the potential affect that the US Sarbanes-Oxley act and proposed EU directives on accounting and auditing will have disclosure regimes in SEE.

The second session of the workshop reviewed the board's role in overseeing transparency and disclosure. It included a study of the board's role in disclosure based on 32 corporate governance codes, primarily from Europe and including a number of SEE countries. Based on this and the other presentations, it is clear that the board must play a leading role in overseeing disclosure by the company and that both the board as a whole and individual board members also have important disclosure duties. The session also included a lively discussion on the extent to which disclosure, or other, requirements for boards and companies needed to be personally supported by board members to be successful.

The next session of the workshop addressed disclosure of beneficial ownership and control. The panellists made clear the importance of adequate disclosure, and its relevance for a range of policy concerns in addition to corporate governance. Main issues included disclosure requirements, e.g. reporting thresholds at 10%, 20% etc, and the technology that registrars have access to to help track ownership. The trend in the region is clearly towards single registry/depositories with dematerialised shares. This sort of system facilitates the tracking of *nominal* ownership, but may not reveal beneficial ownership. A critical issue is the identification of the owners of non-listed entities, companies or otherwise, that normally serve as the "fronts" for abusive shareholders or others seeking to conceal their identities.

The final session of the workshop addressed the critical issue of reporting related party transactions and conflicts of interest. Looking at practices in the SEE region, as well as other countries, the regime for disclosure of potentially related parties and conflicts of interest needs to be a comprehensive one in terms of who must disclose, what transactions must be disclosed, and when and how information is disclosed—the annual and quarterly reports and notification of the general shareholders meeting provide important disclosure opportunities and companies should of course disclose certain major transactions immediately. The importance of additional controls to prevent the abuse of potential conflicts, such as pre-emptive rights, were also emphasised. Participants in the meeting also made it clear that one area of particular concern in the region involves *politically* related conflicts of interest, e.g. a member of parliaments serving on a company board, a relationship deserving clear disclosure, at the very least.

III. Next Steps

The next meeting of the SEE Roundtable is tentatively planned for spring of 2005 in Greece. Roundtable participants offered a number of suggestions for potential items for discussion for the next meeting, including the role of the board and Institutes of Directors—which are largely absent in the region—in improving implementation and enforcement, as well as other ways the private sector can enhance enforcement of corporate governance norms and standards. They also emphasised their appreciation for the Roundtable, particularly as a regional forum to discuss corporate governance, and hope that it can continue its work into the future.