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Corporate Governance in Transition Economies

Slovenia Country Report

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The contents of this publication reflect the opinions of individual authors and do not necessarily reflect the views of the EBRD.

The report is based on information available at the end of April 2015.

If you believe that the information has changed or is incorrect, please contact Gian Piero Cigna at cignag@ebrd.com

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This Report – along with all other country reports prepared within this initiative – is available at: http://www.ebrd.com/what-we-do/sectors/legal-reform/corporate-governance/sector-assessment.html

Foreword

As part of its Legal Transition Programme, the European Bank for Reconstruction and Development ("EBRD") has been assessing the state of legal transition in its countries of operations. These assessments provide an analysis of the progress of reform and identify gaps and future reform needs, as well as strengths and opportunities.

In 2012, the Legal Transition team within the EBRD Office of the General Counsel (LTT) developed with the Assistance of Nestor Advisors a methodology for assessing corporate governance frameworks and the governance practices in the EBRD countries of operations. This assessment was implemented in 2014-2015 (the "Assessment").

The Assessment aims at measuring the state of play (status, gaps between local laws/regulations and international standards, effectiveness of implementation) in the area of corporate governance

The Assessment is meant to provide for (i) a comparative analysis of both the quality and effectiveness of national corporate governance legislation (including voluntary codes); (ii) a basis to assess key corporate governance practices of companies against the national legislation; (iii) an understanding whether the legal framework is coupled with proper enforcement mechanisms (e.g., sanctions) and/or with authorities able to ensure proper implementation; (iv) a support to highlight which are the major weaknesses that should be tackled by companies and legislators for improving the national corporate governance framework; and (v) a tool which will enable the EBRD to establish "reference points" enabling comparison across countries.

This country report is part of a series of 34 country reports. A general report synthesising all countries will close the Assessment.

Methodology

This Assessment is based on a methodology designed to measure the quality of legislation in relation to best practices requirements and the effectiveness of its implementation as evidenced by companies' disclosure, also taking into consideration the capacity of the institutional framework (e.g., courts, regulators) to sustain quality governance. The analytical grid developed for assessing the governance framework is based on international recognised best-practice benchmarks (e.g., OECD Corporate Governance Principles, Development Financial Institutions, EBRD, IFC and World Bank ROSC governance methodologies). The methodology is applied identically across all the countries reviewed. The process for gathering, analysing and reporting information is applied identically for each of the countries assessed, which allows comparing countries to each other across a long a set of benchmarking points.

For the purpose of the Assessment, the corporate governance framework and the practices were divided in five key areas: (i) Structure and Functioning of the Board; (ii) Transparency and Disclosure of company information; (iii) Internal Control; (iv) Rights of Shareholders; and (v) Stakeholders and Institutions. Each of these key areas is further divided in sections (for instance, the area "Structure and Functioning of the Board" is divided in five sections: Board composition; Gender diversity at the board; Independent directors; Board effectiveness; and Responsibilities of the board). Each section is further divided in subsections (for instance, the section "Independent Directors" is divided in three subsections: "Requirement to have independent directors"; "Definition of Independence"; and "Disclosed practices").

The assessment started by sending a questionnaire to law firms, audit firms, national regulator(s), ten largest (listed) companies, and stock exchange(s) in each country. Questions were different according to the respondents, which were asked to provide information on the legislation and on how they believe the legislation is implemented.

Responses were assigned to the corresponding subsection(s) and validated by the EBRD corporate governance specialists by looking at the applicable framework and at the disclosure offered by the ten largest (listed) companies in each country. In this respect, the working hypothesis was that the ten largest listed companies are those offering the best disclosure in each country. As such, we presumed that when certain practices were not disclosed by them, they were unlikely to be disclosed by smaller or unlisted companies. The ten largest companies were identified according to their market capitalisation. When a country did not have a stock exchange, there were less than ten listed issuers or there were no data on capitalisation of issuers, the ten largest companies were identified according to their revenues and size of the labour force. In case the largest companies were mostly of one sector (e.g., financial institutions), then the sample of ten companies was corrected to reflect other sectors of the economy.

The validation of responses was undertaken by the corporate governance specialists within the Legal Transition Team through desktop research. This research was conducted both on legislation and on the practices disclosed by the largest (listed) companies (e.g., companies' websites, annual reports, stock exchanges database etc.). In addition, the relevant reports by international financial institutions (e.g., IMF, World Bank, IFC, Transparency International, etc.) were analysed and taken into consideration. Answers received by respondents that were not grounded by specific references to legislation or consistent with the disclosed practices were not taken into consideration.

Following the validation process, each subsection was compiled by adding specific references to legislation and practices. Conclusions were then formulated for each subsection, each rated as per their adherence to international governance standards. The score ranges from 1 (very weak) to 5 (strong). The rating for each section was then calculated by averaging the ratings of the subsections.

Because understanding corporate governance requires a "holistic perspective", where each component needs to have a place in the overall picture – pretty much like a puzzle - in case one of the subsection was rated "weak" or "very weak", the resulting average was decreased by 0.2; in case more than one subsection was rated “weak” or “very weak”, the resulting average was decreased by 0.5. This is because if just one component is not fitting well with the others, then all others are weakened. Similarly, the overall strength diminishes if there are more weak components.

Conversely, in order for the framework to be strong, all components need to be well fitting with each other. Hence, in case all subsections were scored “moderately strong” or “strong”, then the resulting average was increased by 0.5. However, this “positive” adjustment was used with some care as the assessment looked at the top ten largest companies in the country, hence findings tended to be often overly optimistic.

Key areas were then rated according to the same criteria.

The ratings are presented through the colours detailed in the box below and they demonstrate the adequacy or need of reform in respect to each governance area and section.

Rating:

“Strong to very strong” (DARK GREEN) - The corporate governance framework / related practices of companies are fit-for-purpose and consistent with best practice.

“Moderately strong” (LIGHT GREEN) - Most of the corporate governance framework / related practices of companies are fit-for-purpose but further reform is needed on some aspects.

“Fair” (YELLOW) - The corporate governance framework / related practices of companies present some elements of good practice, but there are a few critical issues suggesting that overall the system should be assessed with a view of reform.

“Weak” (ORANGE) - The corporate governance framework / related practices of companies may present few elements of good practice, but overall the system is in need of reform.

“Very weak” (RED) - The corporate governance framework / related practices of companies present significant risks and the system is in need of significant reform.

We believe corporate governance cannot be captured and measured simply by numerical values. Hence, alongside the “quantitative” assessment obtained according to the methodology described above, a “qualitative” assessment was also undertaken, by classifying our findings for each section as “strengths” and “weaknesses”. Because understanding corporate governance requires a “holistic perspective”, when the “quantitative” assessment was finalised, the assessment team compared it with the “qualitative” assessment, and when any inconsistency (i.e. material weaknesses or strengths) was noticed, the average scores of the sections were adjusted by up to ±0.5.

A preliminary version of the Assessment was made public for consultation. The comments and corrections received during the process were analysed by the corporate governance specialists. When confirmed, the corrections were reflected in the final ratings and in this Assessment.

Overview

Legislative framework:

The primary sources of corporate governance legislation in Slovenia are the Companies Act, the Banking Act, the Market in Financial Instruments Act and the Auditing Act. The Bank of Slovenia and Ljubljana Stock Exchange issued a set of rules and regulations, applicable to banks and listed companies respectively, which also include provisions relevant to corporate governance.

In 2004, the Ljubljana Stock Exchange, Slovenian Directors' Association and Slovenian Managers Association adopted the Slovenian Corporate Governance Code for Listed Companies, which was revised in 2005, 2007, 2009 and 2016.[1] The Code is to be implemented according the so-called "*comply or explain*" approach.

Structure and functioning of the board

Companies in Slovenia can operate under a one- or two-tier board system. All ten largest companies are organized under a two-tier board structure. The average size of the boards of the ten largest listed companies is 8 members, which (for large companies) is an adequate size to allow good board dynamics and ensure a diversified mix of skills at the board. The law requires that the supervisory board should include employee representatives. Legal entities cannot serve as board members. Gender diversity at the board among the ten largest listed companies is above 20%, one of the highest in the EBRD region.

The Corporate Governance Code recommends that at least half of the board members in listed companies are independent and from 2016 this recommendation relates to all board members.[2] The definition of independence is included in the Code; however, it provides only negative "*non-affiliation*" criteria, without any guidance on what independent directors are expected to do in practice to exercise their independence.

The Companies Act does not foresee any specific qualification requirement for board members, however the Corporate Governance Code includes some recommendations in this respect. In banks and insurance companies, board members are subject to fit and proper requirements.

Listed companies, banks and companies with employee representation at the board are required to set up audit committees. The Corporate Governance Code also recommends companies to set up a nomination and a remuneration committee. Until its revision in 2016, the Code recommended nomination committees to be composed of external experts (i.e., non-board members),[3] while the law requires that the audit committee include at least one independent expert on accounting and audit. It seems that this "*independent expert*" is meant as being an "*outsider*" (i.e., not a board member). We have some reservations about these solutions, as we believe that "board" committee should be composed exclusively of board members. Banks are required to set up risk committees and - depending on their size - nomination and remuneration committees. Following the 2015 amendment of the Banking Act, all committees' members in banks must be supervisory board members.

The law empowers the board with the authority to appoint executives and oversee management, but it is silent on the authority of approving the company's strategy and budget, while its competence to review the risk appetite/profile is recognised indirectly through tasks assigned to the audit committee..

The Corporate Governance Code recommends the board to appoint a corporate secretary, however none of the ten largest listed companies disclosed having this function in place. The Code also

[1] In November 2016, a revision of the code was adopted. While acknowledging this novelty, this was after the cut-off date of the report.

[2] It appears that the latest revision of the Code introduced a recommendation that all members of the supervisory board should be independent.

[3] This recommendation was deleted in the 2016 revision, but it seems that it is still accepted for external members to participate in nomination committees – see "Board Composition" below.

recommends companies to perform board evaluations and five of the ten largest companies disclosed having performed one in the past. Fiduciary duties, directors' liability and conflicts of interest are regulated by law.

Disclosure

Companies are required to prepare annual reports including financial and non-financial information. Annual reports of listed companies must include a corporate governance statement, in order to explain any deviations from the Corporate Governance Code's recommendations, following the "*comply or explain*" approach. At least nine among the ten largest listed companies prepared comprehensive annual reports providing information on governance and ownership structures along with "*comply or explain*" statements. However, not all explanations are meaningful; some are very formalistic and not much explanatory.

The stock exchange and Slovenian Directors' Association have published comprehensive and informative "*Guidelines on Disclosures for Listed Companies*", available on the exchange website.

All companies in our sample disclose the names of their board members and activities of their boards. Six companies also provide some (limited) information on the qualification of their board members; to note that this disclosure is only required by law as part of the materials for the general shareholders' meeting, when election takes place.

Companies are required to disclose in their annual reports the identity of shareholders holding directly 10% or more of their stock.

All ten largest companies prepared their financial statements in line with IFRS and disclosed them on their websites.

Listed companies and banks are required to appoint independent external auditors and disclose their names and opinions in their annual reports. All companies in our sample appear to comply with this requirement. The provision of non-auditing services by the external auditor is restricted, subject to the scrutiny of the audit committee. Disclosure on this matter is very limited.

Internal Control

Companies are not required to create an internal audit function by law, but the law defines the role of the internal auditor and its relation to supervisory board and audit committee if internal audit is established. The Corporate Governance Code recommends listed companies to establish an internal audit function. Banks and insurance companies are required to establish an internal audit function, but the internal audit seems to report to the management board, rather than to the board via the audit committee. Banks are also required to establish a standalone compliance function.

All public interest entities are required to establish an audit committee. Banks are required to have an audit committee composed of supervisory board members. In companies, the law requires that at least one member of the audit committee is an *independent expert* in accounting and audit.[4] This requirement seems to be interpreted in the sense that the "independent expert" should not be a (supervisory) board member. We have doubts about the soundness of this provision. Before the revision in 2016, the Corporate Governance Code recommended audit committees to be "mainly composed of independent experts in accounting and audit", while the current provision lists independence, personal integrity and fairness, good communication skills, capability of constructive dialogue and critical assessment and trustworthiness as required characteristics for all audit committee members. The independence requirements regarding the audit committee's composition are overall weak and do not ensure their members' objectivity which is one of the key condition which the audit committee is based upon. All ten largest listed companies disclose having

[4] It seems that the requirement to have one "outsider" in the audit committee has remained in place after the 2015 amendments to the Law on Companies, which stipulates that other members of the audit committee can only be independent members of the supervisory board.

an audit committee and nine of them disclose the number of meetings of their audit committees. However, only a minority of these companies disclose the composition of the audit committee and in most cases, the "independent" members are non-board members.

The law assigns to the general shareholders' meeting the exclusive authority to appoint the external auditor, upon recommendation of the supervisory board, based on audit committee's recommendation. The law requires the external auditor to be independent and it is the audit committee that runs the "*independence test*". The law requires auditors' rotation after a maximum of seven consecutive years, which is in line with best practices.

Companies are required to disclose related party transactions within the notes to their financial statements and all ten largest companies seem to comply with this requirement; however, disclosure in this area appears often incomplete. The law provides for some guarantee and immunity of whistle-blowers when reporting on corruption or contributing to the fight against corruption.

Rights of Shareholders

Shareholders with at least 5% of company's shares can call a general shareholders' meeting (GSM) and add items to the GSM agenda. The law requires joint stock companies to notify the GSM agenda to shareholders at least 30 calendar days before the meeting, which is line with best practices.

Shareholders do not have an explicit right granted by law to ask questions at the GSM. Only the Corporate Governance Code recommends that each shareholder should have the right to discuss items on the agenda, ask questions, and provide proposals.

Shares grant to shareholders equal rights and shareholders are endowed with general inspection rights and pre-emptive rights in case of capital increase. Supermajority is required to approve major corporate changes.

Self-dealing is regulated and insider trading is forbidden. In the last 5 years, there were a few insider trading cases fully investigated and submitted to the prosecutor. However, so far no case has resulted in a conviction.

Derivative action is regulated by law, but it requires the simple majority vote of the GSM. If the GSM approval is not granted, then the action can be pursued only by shareholders representing 10% of the capital. This makes the process quite cumbersome and given the concentrated ownership of Slovenian companies, it might not be the most appropriate solution. We could not find any judicial practice on this matter.

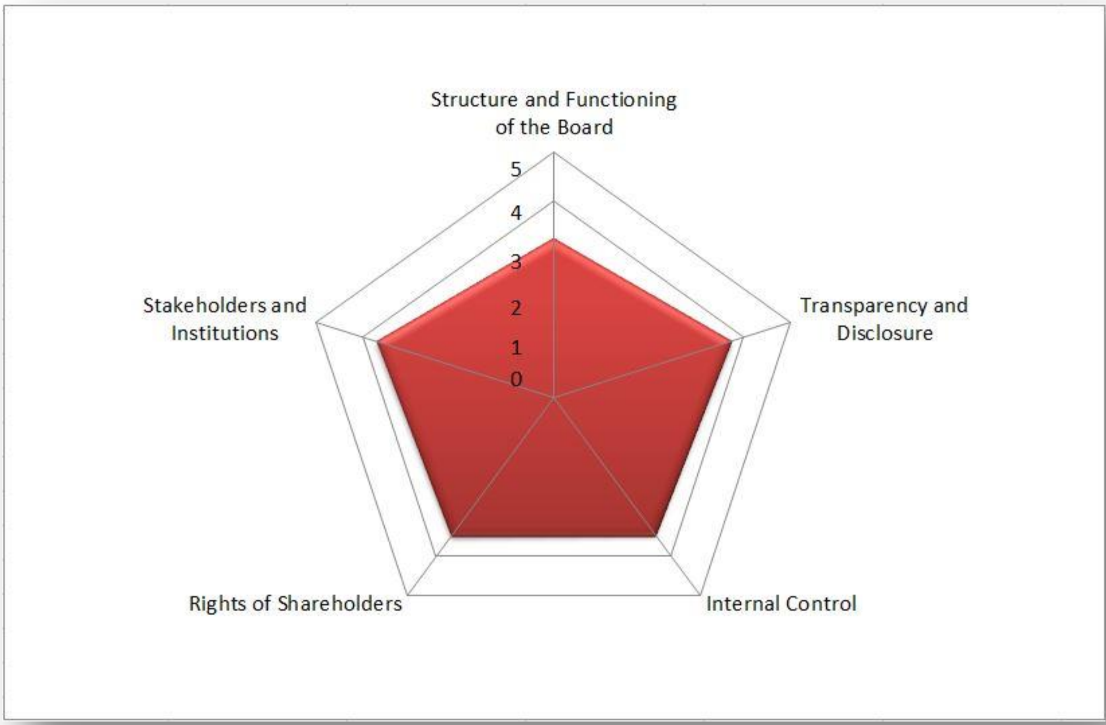
Neither the law nor the Corporate Governance Code provide for cumulative voting, proportional representation, or similar devices, which allow minority shareholders to be represented at the (supervisory) board. There is no requirement to disclose shareholders agreements. It is not clear whether shareholders agreements are enforceable, since there is not much judicial practice on this matter. Registration of shares must be maintained by the Central Securities Clearing Corporation and significant shareholding variations must be disclosed.

Stakeholders and Institutions

The institutional framework supporting good corporate governance in Slovenia is relatively advanced. The Ljubljana Stock Exchange (LJSE) is the regulated market in Slovenia. Its market capitalisation is around 16.2% of the GDP and the volume of trades is relatively high. There are three main listing tiers at the LJSE: the *Entry Market Segment*, the *Standard Market Segment*, and the *Prime Market Segment*. To be listed as part of the Standard or Prime Market Segments, companies must submit a statement of compliance with the Corporate Governance Code, and must adhere to stricter disclosure practices. The LJSE provides a website, the SEOnet system, where all the regulatory submissions of listed companies are disclosed.

The LJSE, the Slovenian Directors' Association and the Slovenian Managers Association issued the Slovenian Corporate Governance Code for Listed Companies in 2004. This was later revised in 2005, 2007, 2009 and 2016. The LJSE and the Slovenian Directors' Association seem to be actively monitoring the securities market and promoting good corporate governance. LJSE and the Slovenian Directors' Association published a statistical analysis on companies' compliance with the Corporate Governance Code in the period 2011-2014. The study showed that compliance with the Corporate Governance Code has risen in the last few years. Nevertheless, the analysis suspects that companies may be interpreting the Corporate Governance Code incorrectly, hence resulting in artificially high levels of compliance being disclosed in annual reports. In addition, explanations for lack of compliance are overly formalistic, and rarely provide company specific justifications or alternative practices. Lastly, indicators provided by international organisations rank Slovenia moderately well with regard to corruption and investor protection perceptions, but reforms are needed to improve the country's competitiveness levels.

Corporate Governance Legislation and Practices in Slovenia



Source: EBRD, Corporate Governance Assessment 2016

Note: The extremity of each axis represents an ideal score, i.e., corresponding to the standards set forth in best practices and international standards (e.g., OECD Corporate Governance Principles). The fuller the 'web', the closer the corporate governance legislation and practices of the country approximates best practices.

Key: Very weak: 1 / Weak: 2 / Fair: 3 / Moderately Strong: 4 / Strong to very strong: 5

Key Areas and Rating	***Strengths and Weaknesses***
1. Structure and Functioning of the Board *Fair*	*Companies in Slovenia can operate under a one- or two-tier board system. All ten largest companies are organized under a two-tier board structure.* *The average size of the boards of the ten largest listed companies is 8 members, which (for large companies) is an adequate size to allow good board dynamics and ensure a diversified mix of skills at the board. The law requires that the supervisory board should include employee representatives.* *Legal entities cannot serve as board members. Gender diversity at the board among the ten largest listed companies is above 20%, one of the highest in the EBRD region.* *The Corporate Governance Code – which appears overall well implemented – recommends that at least half of the board members (2016 revision: all board members) in listed companies are independent. The definition of independence is included in the Code; however, it provides only negative "non-affiliation" criteria, without any guidance on what independent directors are expected to do in practice to exercise their independence.* *The Companies Act does not foresee any specific qualification requirement for board members, however the Corporate Governance Code includes some recommendations in this respect. In banks and insurance companies, board members are subject to fit and proper requirements.* *Listed companies, banks and companies with employee representation at the board are required to set up audit committees. The Corporate Governance Code also recommends companies to set up a nomination and a remuneration committee. Until its revision in 2016, the Code recommended nomination committees to be composed of external experts (i.e., non-board members), while the law requires that the audit committee include at least one independent expert on accounting and audit. It seems that this "independent expert" is meant as being an "outsider" (i.e., not a board member). We have some reservations about these solutions, as we believe that "board" committee should be composed exclusively of board members. Banks are required to set up risk committees and - depending on their size - nomination and remuneration committees. Following the 2015 amendment of the Banking Act, all committees' members in banks must be supervisory board members.* *The law empowers the board with the authority to appoint executives and oversee management, but it is silent on the authority of approving the company's strategy and budget, while its competence for reviewing the risk appetite/profile is recognised indirectly through tasks assigned to the audit committee.* *The Corporate Governance Code recommends the board to appoint a corporate secretary, however none of the ten largest listed companies disclosed having this function in place. The Code also recommends companies to perform board evaluations and five of the ten largest companies disclosed having performed one in the past.* *Fiduciary duties, directors' liability and conflicts of interest are regulated by law.*
1.1. Board Composition *Fair*	***Strengths:*** • *Companies have the flexibility to choose between the one- or two-tier board systems.* • *The average size of the board is 8 members, which is an adequate size to allow good board dynamics and an appropriate mix of skills.* • *Legal entities cannot serve as board members.* • *In banks, board members are subject to fit and proper requirements.* • *The Corporate Governance Code recommends that prior to beginning the assessment of potential candidates for the (supervisory) board, the (supervisory) board or the nomination committee - if created - should define the level of professional knowledge, experience and skills necessary for the (supervisory) board member's "high-quality conduct of his function". The Code also recommends that the chair of the board should have "adequate knowledge, skills and the ability to mediate and lead".* • *The Corporate Governance Code recommends that members of the remuneration committee should all be expert in company law. In addition, one member of this committee should be an expert in management and at least one should have expertise related to remuneration policies.* • *Six out of ten largest listed companies appear to disclose the education and qualifications of their board members. These boards appear to have a diversified mix of skills, with four companies having at least one member with auditing, risk, or accounting education or experience. Three board chairs have industry expertise and previous chairmanship experience.* ***Weaknesses:*** • *The Companies Act does not foresee any specific qualification requirements for board members, however the Corporate Governance Code includes some recommendations in this respect.*

Key Areas and Rating	Strengths and Weaknesses
	• *Until 2016, the Corporate Governance Code recommended nomination committees to be composed of "external members" and the chair of the (supervisory) board. Even though the current recommendation is not as explicit, it appears that external members participation in nomination committees is still acceptable, as long as those members are considered independent, The law allows outsiders" (i.e., non-board members) to be members of the audit committee. It is argued that this approach would allow the committees to draw from a larger pool of expertise and that it might give the committee greater independence. This argument is not fully convincing. In our opinion, the committees should include only board members if the functions delegated to the committees are typical board functions. Further, we think it is essential that committees' members, who recommend specific actions to the (supervisory) board, then follow up such recommendations and vote them at the (supervisory) board, therefore reinforcing their position and the board's "objective judgement". Finally, this structure could create potential confidentiality and accountability issues, since the liability of committees' members may be more lax than that of the (supervisory) board members. While the (supervisory) board may require external advice or expertise on specific issues, and it should be able to do so, it should not allow these "advisers" to replace the board in making its decisions and recommendations. In practice, having "outsiders" as committee members seems to be a common practice among the companies in our sample.*
1.2. Gender Diversity at the Board (23.33%) *Moderately Strong*	• *All ten largest listed companies disclose the names of their directors. It appears that there are four women in one board; three in another one; two women in five boards and one in two boards. Among these companies, the female representation averages 25.93%.* • *In total, there are 19 women out of 84 board members.* • *When counting all ten companies in our sample, the average of female directors per board is of 23.33%, one of the highest averages in the EBRD region.*
1.3. Independent Directors *Fair*	***Strengths:*** • *The Corporate Governance Code recommends that at least half (2016 revision: all) of the (supervisory) board members in listed companies are independent. The Code further recommends that all members of the (supervisory) board sign a statement, in which they confirm meeting the criteria of independence of the Code. Board members can declare themselves independent if they meet all the criteria set by the Code or if they do not meet them and these are not relevant and ongoing they can still declare themselves as independent, and state explicitly that they have the relevant professional training and know-how to work on a supervisory board. Such signed statements should then be posted on the company's website.* • *The Companies Act requires that at least one member of the audit committee should be an (external) independent expert in accounting and audit, and as of 2015, that all its members should be independent. Until 2016, the Corporate Governance Code recommended that audit committees should be composed mainly of independent experts in accounting and audit. The Code's current recommendation echoes the requirement from the Law.* ***Weaknesses:*** • *Half of the ten largest listed companies disclose having independent directors; four companies stated that all their board members are independent; and one company disclosed that seven out of its nine members comply with the independence requirements. In all cases, the ground upon which directors are considered independent is not well spelled out in companies' discus lore. The other five companies remain silent on this matter.* • *The definition of independence is included in the Appendix C of the Corporate Governance Code; however, it includes only negative "non-affiliation" criteria. It should be pointed out that the concepts of "non-affiliation" and "independence" are different. While non-affiliation can be established by negative criteria only, independence necessarily needs objectivity of mind and character, which is a positive character that should be demonstrated, and explained in practice. No company seems to make an effort in providing these explanations.* • *Neither the law nor the Corporate Governance Code recommend board committees (if created), including audit committees, to include only independent board members. In practice, none of the ten largest listed companies disclosed having committees entirely made of independent board members. The committees' members that are named independent are not board members.*
1.4. Board Effectiveness *Fair*	***Strengths:*** • *The Corporate Governance Code recommends companies to perform board evaluations. The Banking Act assigns this role to the nomination committee. Five among the ten largest listed companies disclosed performing board evaluation.* • *The law requires the establishment of an audit committee within the supervisory board of listed companies and companies having worker representation at the board. The Corporate Governance Code further recommends companies to set up remuneration and nomination committees.* • *Banks, depending on their size, are required to have audit, risk, nomination and remuneration committees.* • *All ten largest listed companies disclosed having an audit committee. Nine among the ten largest listed companies declared that they have the nomination committee in place and seven the remuneration committee in place (sometimes combined with the nomination committee). However – as mentioned above – we are not entirely convinced about the sound composition and independence of committees.* • *Nine out of the ten largest listed companies disclosed the number of meetings of their audit committees. The frequency of meeting per year varies from 3 to 9. The number of meetings held in person vs those held in absentia is not disclosed.* ***Weaknesses:*** • *The Corporate Governance Code recommends companies to appoint a corporate secretary (the law is silent on this matter). It seems that some companies have a dedicated corporate secretary position, however, their*

Key Areas and Rating	Strengths and Weaknesses
	responsibilities do not seem to be aligned to best practices and are limited to administrative functions. In practice, none among the ten largest listed companies disclosed having a corporate secretary function in place. • *Eight out of ten largest companies disclosed the number of board meetings per year. The frequency varies from 6 to 13 meetings in person per year. This could be appropriate for a one-tier board, but might be excessive for a two-tier board (and all ten largest listed companies are organised under a two-tier system) and an indication that the board is possibly dealing with operational issues. If this is the case, then it is not a good practice.*
1.5. Responsibilities of the Board *Fair*	***Strengths:*** • *The law is clear in assigning the board with the authority to appoint executives and oversee the management, while its competence for reviewing the risk appetite/profile is recognised indirectly through tasks assigned to the audit committee.* • *By law, in a one- tier system the board is in charge of managing and supervising the company's operations. In the two-tier system, the management board reports to the supervisory board at least once every quarter on the planned business policy and other general issues concerning operations.* • *In banks, the supervisory board is entitled to grant its approval to the management board in laying down the bank's financial plan and business policy. With reference to risk, the Banking Act requires banks to create a risk committee at the board level, reporting to the supervisory board.* • *The Corporate Governance Code recommends that the management board (executives) briefs the (supervisory) board regularly, promptly and coherently on all matters relevant for the company's operations, its strategy and risk management.* • *Fiduciary duties, liability of directors and conflicts of interest are regulated by law (for further information, see the EC Commission's Study on Directors' Duties and Liability - http://ec.europa.eu/internal_market/company/docs/board/2013-study-reports_en.pdf)* ***Weaknesses:*** • *The law does not clearly assign to the (supervisory) board the authority of approving the strategy and budget. We believe that these are key board functions. Two companies in our sample clearly disclose that their management boards adopt the company's strategy.*

Key Areas and Rating	Strengths and Weaknesses
2. Transparency and Disclosure *Moderately strong*	*Companies are required to prepare annual reports including financial and non-financial information. Annual reports of listed companies must include a corporate governance statement, in order to explain any deviations from the Corporate Governance Code's recommendations, following the "comply or explain" approach. At least nine among the ten largest listed companies prepared comprehensive annual reports providing information on governance and ownership structures along with "comply or explain" statements. However, not all explanations are meaningful; some are very formalistic and not much explanatory.* *The stock exchange and the Slovenian Directors' Association have published comprehensive and informative "Guidelines on Disclosures for Listed Companies", available on the exchange website.* *All companies in our sample disclose the names of their board members and activities of their boards. Six companies also provide some (limited) information on the qualification of their board members; to note that this disclosure is only required by law as part of the materials for the general shareholders' meeting, when election takes place.* *Companies are required to disclose in their annual reports the identity of shareholders holding directly 10% or more of their stock.* *All ten largest companies prepared their financial statements in line with IFRS and disclosed them on their websites.* *Listed companies and banks are required to appoint independent external auditors and disclose their names and opinions in their annual reports. All companies in our sample appear to comply with this requirement. The provision of non-auditing services by the external auditor is restricted, subject to the scrutiny of the audit committee. Disclosure on this matter is very limited.*
2.1. Non-Financial Information Disclosure *Fair/Moderately strong*	***Strengths:*** • *The Companies Act requires companies to prepare and submit their annual reports to the Agency of the Republic of Slovenia for Public and Legal Records and Services (hereinafter: AJPES) for publication on its website within four months following the end of the business year (https://www.ajpes.si/?language=english).* • *Annual reports must include financial and non-financial information in form of the business report provided by law along with the corporate governance statement for listed companies. Listed companies are also required by law to indicate in their corporate governance statement the corporate governance code applicable to the company – which might be different from the Slovenian one - and any deviations from the code's recommendations in a "comply or explain" format.* • *The Banking Act requires banks to post the annual report on their websites.* • *At least nine among the ten largest listed companies prepared comprehensive annual reports providing information on governance and ownership structures along with a comply or explain statement.* • *All ten largest listed companies seem to keep their websites up-to-date with the most recent announcements being less than 2 months old. All companies provide up-to-date information on their capital, number of shares and major shareholders on their websites.* • *Joint stock companies are required by law to provide a copy of their updated articles of association and any amendments thereto to the court registry, which then makes it publicly available on AJPES website. Although there is no legal requirement to this end, eight of the ten largest listed companies also disclose their articles on their websites.* • *All ten largest listed companies in the country disclosed the names of their board members and information on their board activities on their website and in their annual reports. Eight of them disclose the number of board meetings per year, and nine of them disclose the number of meetings of their audit committee. All ten largest listed companies provide up-to-date information on their capital, number of shares and major shareholders and disclose the minutes of the general shareholders' meeting on their websites.* ***Weaknesses:*** • *Six of the ten largest listed companies disclosed the education and qualifications of their board members on their websites or annual reports; however, in most cases information is very limited and does not allow stakeholders to understand if the qualifications of the board members are fit for purpose and adding value to the work of the board.* • *Companies are required by law to disclose in their annual reports the identity of shareholders holding directly 10% or more of their stock. All ten largest listed companies appear to disclose who their direct shareholders are, however disclosure of indirect ownership is generally not provided. None of the ten largest listed companies seems to disclose the beneficial owners.* • *Board members, senior managers and controlling shareholders are required to disclose transactions involving the company's shares. Only two out of the ten largest listed companies disclosed transactions in company's shares.* • *There is no requirement to adopt a code of ethics and none of the ten largest companies disclosed having one in place. In 2016 revisions of the Code, a recommendation was introduced in that regard.*

Key Areas and Rating	Strengths and Weaknesses
2.2. Financial Information Disclosure *Moderately strong*	***Strengths:*** • *The law requires listed companies to submit to AJPES, for publication on its website, their financial statements prepared in accordance with the International Financial Reporting Standards (IFRS). The same requirement applies to banks, insurance companies, and other companies if so decided by the general shareholders' meeting. Other joint stock companies can use the Slovenian Accounting Standards which are substantially simplified compared to IFRS.* • *Companies are required by law to include in their annual reports/financial statements the auditor's opinion that the financial statements are prepared in accordance with the applicable accounting standards and accurately reflect the financial condition of the company.* • *All ten largest companies prepared their financial statements in line with IFRS and disclosed them on their websites.* ***Weaknesses:*** • *A recent World Bank Report on the Observance of Standards and Codes on Accounting and Auditing points out that "Financial analysts and investors have reservations about the quality of financial information contained in financial statements".*
2.3. Reporting to the Market and to Shareholders *Moderately strong*	***Strengths:*** • *Nine among the ten largest listed companies prepared comprehensive annual reports providing information on governance and ownership structures along with "comply or explain" statements.* • *The Companies Act provides that a pecuniary fine in a range from EUR 6,000 to EUR 40,000 may be imposed upon a company if it fails to submit its annual reports to AJPES. Over the last 5 years it seems that a few companies were sanctioned for breaches of reporting rules.* • *Joint stock companies are required to disclose the minutes of the general shareholders' meeting and all ten largest listed companies appear to comply with this requirement.* • *Listed companies are required to disclose price sensitive events and the start of insolvency and restructuring proceedings.* ***Weaknesses:*** • *Disclosure of non-financial information has room for improvement.*
2.4. Disclosure on the External Audit *Moderately strong*	***Strengths:*** • *Listed companies and banks are required to appoint an independent external auditor. The law assigns to the general shareholders' meeting the exclusive power to appoint the external auditor, upon recommendation of the supervisory board, based on the audit committee's recommendation.* • *All ten largest listed companies appointed an external auditor, disclosed its name and declared their auditors to be independent.* ***Weaknesses:*** • *The law prohibits the external auditor to provide certain non-auditing services. Other services are allowed, subject to the scrutiny of the audit committee. Public disclosure on the type and amount of non-auditing services provided by the external auditor is very limited.*

Key Areas and Rating	*Strengths and Weaknesses*
3. Internal Control *Fair*	*Companies are not required to establish an internal audit function by law, but the law defines the role of the internal auditor and its relation to supervisory board and audit committee, if internal audit is established. The Corporate Governance Code recommends listed companies to establish an internal audit function. Banks and insurance companies are required to establish an internal audit function, but the internal audit seems to report to the management board, rather than to the board via the audit committee. Banks are also required to establish a standalone compliance function. All public interest entities are required to establish an audit committee. Banks are required to have an audit committee composed of supervisory board members. In companies, the law requires that at least one member of the audit committee is an independent expert in accounting and audit. This requirement seems to be interpreted in the sense that the "independent expert" should not be a (supervisory) board member. We have doubts about the soundness of this provision.* *Before the revision in 2016, the Corporate Governance Code recommended audit committees to be "mainly composed of independent experts in accounting and audit", while the current provision lists independence, personal integrity and fairness, good communication skills, capability of constructive dialogue and critical assessment and trustworthiness as required characteristics for all audit committee members. The independence requirements regarding the audit committee's composition are overall weak and do not ensure their members' objectivity which is one of the key condition which the audit committee is based upon.* *All ten largest listed companies disclose having an audit committee and nine of them disclose the number of meetings of their audit committees. However, only a minority of these companies disclose the composition of the audit committee and in most cases, the "independent" members are non-board members.* *There is no requirement by law or recommendation by the Corporate Governance Code to adopt a code of ethics and none of the ten largest listed companies disclosed having one in place.* *The law assigns to the general shareholders' meeting the exclusive authority to appoint the external auditor, upon recommendation of the supervisory board, based on audit committee's recommendation. The law requires the external auditor to be independent and it is the audit committee that runs the "independence test". The law requires auditors' rotation after a maximum of seven consecutive years, which is in line with best practices.* *Companies are required to disclose related party transactions within the notes to their financial statements and all ten largest companies seem to comply with this requirement; however, disclosure in this area appears often incomplete.* *The law provides for some guarantee and immunity of whistle-blowers when reporting on corruption or contributing to the fight against corruption.*
3.1. Quality of the Internal Control Framework *Fair*	***Strengths:*** • *Banks are required to establish an internal audit function and a standalone compliance function.* • *Listed companies and banks are required to have audit committees, within the (supervisory) board of listed companies. In banks, only supervisory board members can be audit committee's members. Audit committees are required to report to the board.* • *All ten largest listed companies disclosed having an audit committee.* • *Anti-corruption Law provides for some guarantee and immunity of whistle-blowers when reporting on corruption or contributing to the fight against corruption.* ***Weaknesses:*** • *Companies are not required to establish an internal audit function.* • *Banks are required to create internal audit departments as independent units directly subordinated to the bank's management board. Internal audit departments are required to submit half-yearly and annual reports to the bank's management board and supervisory board. The law does not clearly require the internal audit to report to the audit committee. We are not sure whether this legal requirement is in line with best practices, which recommend that the internal auditor is functionally accountable to the audit committee and only administratively to the management.* • *The Corporate Governance Code recommends that internal auditors should be in charge of "independently monitoring the orderliness and cost-effectiveness of the company's operations, and of its compliance with the regulations and the company's internal acts, with special emphasis on the quality and adequacy of the system of internal control". We are not entirely sure about the soundness of this recommendation, as it seems to relate to compliance instead of internal audit.* • *We are not convinced about the soundness and independence of the audit committee (see below).*

Key Areas and Rating	*Strengths and Weaknesses*
	• *There is no requirement to adopt a code of ethics, and none of the top ten largest listed companies disclosed having one in place. In 2016 revisions of the Code, a recommendation was introduced in that regard.*
3.2. Quality of Internal and External Audit *Moderately strong*	***Strengths:*** • *Listed companies and banks are required to appoint an independent external auditor. Audit committees should run the 'independence test'. All ten largest listed companies disclosed having an audit committee and declared their auditor to be independent. A significant majority of these companies is audited by international audit firms.* • *The Auditing Act requires rotation of an audit partner after a maximum of seven consecutive years.* • *According to a recent World Bank Report on the Observance of Standards and Codes on Accounting and Auditing "the ethical and independence requirements for auditors are in line with those under the acquis communautaire, and IFAC's Code of Ethics for Professional Accountants. Auditors are required to submit, in writing, to the audit committee of the audited company a statement on their independence on an annual basis. They are also required to disclose on an annual basis all additional services performed for the company, discuss threats to their independence, and mitigation measures.* ***Weaknesses:*** • *The Auditing Act prohibits the external auditor to provide certain non-auditing services. For other services, the audit is required to notify the audit committee of all services provided. Public disclosure on this matter is very limited though.* • *The above mentioned World Bank Report highlights that "The current governance arrangements of State Owned Enterprises, and the role of audit committees in practice, are not conducive to effective application of audit standards and ensuring auditors' independence.*
3.3. Functioning and Independence of the Audit Committee *Fair*	***Strengths:*** • *Public interest entities (including listed companies and banks) are required to establish audit committees and all ten largest listed companies disclosed having an audit committee in place.* • *By law, the responsibilities of the audit committee include: proposing an independent auditor to the (supervisory) board; cooperating with the auditor in conducting annual audits; supervising and monitoring financial reporting by the company; reviewing and monitoring independence of the auditor, particularly as regards the provision of non-audit services, and monitoring the company's internal controls, internal audit, and risk management systems.* • *As far as qualification of the audit committee members are concerned, the Companies Act requires that at least one member of the audit committee should be an independent expert in accounting and audit and that all its member should have expertise relevant for the business of the company. Until 2016, the Corporate Governance Code recommended audit committees to be "mainly composed of independent experts in accounting and audit", while the current provision lists independence, personal integrity and fairness, good communication skills, capability of constructive dialogue and critical assessment and trustworthiness as required characteristics for all audit committee members. Also, the Code recommends a list of desirable characteristics for all committee members, one of them being substantial knowledge of the professional field dealt with by the committee.* • *Nine out of the ten largest listed companies disclose the number of meetings of their audit committees. The frequency of meeting of the audit committee per year varies, ranging from 3 to 9.* ***Weaknesses:*** • *Neither the law nor the Corporate Governance Code recommend board committees (if created), including audit committees, to include only independent board members. The 2016 version of the Corporate Governance Code states that all committee members should be independent, but that recommendation applies to both board members and "outsiders" (explicitly mentioned in the Code as "external committee members").* • *In practice, none of the ten largest listed companies disclosed having committees entirely made of independent board members. The committees' members that are named independent are not board members.* • *Only in banks – following the 2015 amendment of the Banking Act - the audit committee must be made exclusively of (supervisory) board members.* • *It seems that only in four companies at least one member of the audit committee has auditing, risk, or accounting education or experience.* • *The above mentioned World Bank Report points out that "companies' governance arrangements with respect to general purpose financial statements need further improvements, in terms of the general functioning of audit committees and supervisory boards as well the limited role of shareholders in financial statements approval". The same Report also states that "in practice, although audit committees meet regularly and play an active role in selecting auditors, their effectiveness could be enhanced if they play a more active role in the auditing process and engage with relevant stakeholders more proactively". With specific reference to state owned enterprises (SOEs), the Report also highlights that "The current governance arrangements of SOEs, and the role of audit committees in practice, are not conducive to effective application of audit standards and ensuring auditors' independence".*
3.4. Control over Related Party Transactions and Conflict of Interest *Fair*	***Strengths:*** • *According to the Companies Act, "A related party shall be the party which is defined as such by the International Financial Reporting Standards".* • *The Companies Act requires companies to include information on related party transactions in the financial statements (including the amounts of such transactions, the nature of relationship with related parties and other transaction data which are necessary for understanding the company's financial position, if these transactions are significant and are not carried out under normal market conditions).*

Key Areas and Rating	Strengths and Weaknesses
	• *All ten largest listed companies disclose related party transactions within the notes to the financial statements; however, disclosure appears often incomplete.* • *Conflicts of interests are regulated by both the company law and the banking law. The later requires both members of the management board and of the supervisory board to inform the management board/supervisory board without delay about circumstances that could result in conflicts of interest during the performance of their function.* ***Weaknesses:*** • *The law does not regulate in details the approval procedure of related party transactions. The law only stipulates that all transactions entered into with other companies in which a board member, procurator or executive director together with their family members holds a 10 % share or participates in the profits of the company, must be approved upfront by a supervisory board, a board of directors, or in certain circumstances the general meeting.* • *It appears that there has been no material sanctions imposed for breaching rules on disclosure of conflicts of interests.*

Key Areas and Rating	*Strengths and Weaknesses*
4. Rights of Shareholders *Fair/Moderately strong*	*Shareholders with at least 5% of company's shares can call a general shareholders' meeting (GSM) and add items to the GSM agenda. The law requires joint stock companies to notify the GSM agenda to shareholders at least 30 calendar days before the meeting, which is line with best practices.* *Shareholders do not have an explicit right granted by law to ask questions at the GSM. Only the Corporate Governance Code recommends that each shareholder should have the right to discuss items on the agenda, ask questions, and provide proposals.* *Shares grant to shareholders equal rights and shareholders are endowed with general inspection rights and pre-emptive rights in case of capital increase. Supermajority is required to approve major corporate changes.* *Self-dealing is regulated and insider trading is forbidden. In the last 5 years, there were a few insider trading cases fully investigated and submitted to the prosecutor. However, so far no case has resulted in a conviction.* *Derivative action is regulated by law, but it requires the simple majority vote of the GSM. If the GSM approval is not granted, then the action can be pursued only by shareholders representing 10% of the capital. This makes the process quite cumbersome and given the concentrated ownership of Slovenian companies, it might not be the most appropriate solution. We could not find any judicial practice on this matter.* *Neither the law nor the Corporate Governance Code provide for cumulative voting, proportional representation, or similar devices, which allow minority shareholders to be represented at the (supervisory) board.* *There is no requirement to disclose shareholders agreements. It is not clear whether shareholders agreements are enforceable, since there is not much judicial practice on this matter.* *Registration of shares must be maintained by the Central Securities Clearing Corporation and significant shareholding variations must be disclosed.*
4.1. General Shareholders' Meeting (GSM) *Fair/Moderately strong*	***Strengths:*** • *Shareholders owing at least 5% of company's shares are entitled to call a GSM and add additional item to the GSM agenda.* • *The law requires all joint stock companies to notify the GSM agenda to shareholders at least 30 calendar days before the meeting. Listed companies are required to notify the GSM agenda along with the documents relevant for the meeting on the company's website. Eight out of nine companies posted the notifications and the documents relevant for the GSM on their website.* • *The Companies Act allows shareholders to participate at the GSM not only in person, but also on the basis of a power of attorney and, if so foreseen by the companies' articles of association, to vote by post or electronically.* • *Shares grant to shareholders the same rights.* • *Eight among the ten largest listed companies in the country provide information in their annual reports or on their websites on voting rights.* ***Weaknesses:*** • *Shareholders do not have an explicit right granted by law to ask questions at the GSM. Only the Corporate Governance Code recommends that each shareholder should have the right to discuss items on the agenda, ask questions, and provide proposals.* • *The procedure for derivative actions is cumbersome and rarely used in practice.* • *The law does not provide for cumulative voting, proportionate representation, or similar devices, which would allow minority shareholders to be represented at the (supervisory) board.* • *It is not clear if shareholders are able to nominate board members. The Companies Act provides that the articles may provide that a maximum of one third of the members of the supervisory board are to be appointed by the holders of registered shares whose transfer requires the permission of the company.*
4.2. Protection against Insider Trading and Self-dealing *Fair*	***Strengths:*** • *Insider trading is forbidden. The Criminal Code of Slovenia imposes a punishment up to five years of imprisonment for the abuse of inside information.* • *Conflicts of interest must be disclosed to the board and related party transaction must be disclosed in financial statements. The Corporate Governance Code also recommends enhanced disclosure on these two matters.* • *The stock exchange and the Slovenian Directors' Association have published "Guidelines on Disclosure for Listed Companies", available on the exchange website – which includes a Model Code for Directors' Dealing.* ***Weaknesses:*** • *The enforcement of the insider trading and market manipulation provisions has not been particularly strong. In the last 5 years, there were a few cases on insider trading fully investigated and submitted to the prosecutor. However, so far no case has resulted in a conviction.* • *Regulation on self-dealing has only been recently introduced. There is no requirement to make sure that the price*

Key Areas and Rating	Strengths and Weaknesses
	paid is fair or equivalent to the market price.
4.3. Minority Shareholders Protection and Shareholders' Access to Information *Fair/Moderately strong*	***Strengths:*** • *At least nine among the ten largest listed companies prepared comprehensive annual reports providing information on governance and ownership structures along with "comply or explain" statements.* • *Shareholders are entitled to pre-emptive rights in cases of capital increase. The pre-emptive right may be waived fully or partially only by a resolution of at least a 3/4 majority vote of the shareholders present at the GSM.* • *A 3/4 qualified majority vote of participating shareholders is required to change the capital of a company; to amend the articles of association; and to decide issues regarding merger, take-over, reorganisation and winding up or voluntary liquidation of the company. Minority shareholders may block these major corporate changes with a 25%+1 vote.* • *Shareholders have the possibility to bring an action in the name of the company against the board. The procedure requires a simple majority vote at the GSM to file a court proceeding against the board (member) and to appoint company's representative at the court.* • *Shareholders have general inspection rights.* • *Shares grant to shareholders the same rights. Voting at the GSM is carried out in line with the "one-share, one-vote" principle.* ***Weaknesses:*** • *Neither the law nor the Corporate Governance Code provide for cumulative voting, proportional representation, or similar devices that allow minority shareholders to be represented at the (supervisory) board.*
4.4. Registration of Shareholdings *Moderately strong*	***Strengths:*** • *All shares should be dematerialized and the share register is maintained by the Central Securities Clearing Corporation.* • *Any shareholder of a listed company has to disclose to such company and to the Securities Market Agency if its shareholding reaches, exceeds, or falls below 5, 10, 15, 20, 25, 1/3, 50 or 75 % of total voting rights in the company.* ***Weaknesses:*** • *The law provides that free transferability of shares can be restricted. The articles of association may restrict the transferability of registered shares by determining, in accordance with the Companies Act, that such transfer is subject to the permission of the company. However, the only reason that is deemed substantial for the refusal of share transfer (if traded on a regulated market) is that by the acquisition the acquirer would exceed a certain proportion of the voting rights or a certain proportion in the capital of the company.* • *There is no requirement to disclose shareholders agreements. It is not clear whether shareholders agreements are enforceable, since there seems to be not much judicial practice on this matter.*

Key Areas and Rating	Strengths and Weaknesses
5. Stakeholders and Institutions *Moderately Strong*	*The institutional framework supporting good corporate governance in Slovenia is relatively advanced. The Ljubljana Stock Exchange (LJSE) is the only regulated market in Slovenia. Its market capitalisation is around 16.2% of the GDP and the volume of trades is relatively high. There are three main listing tiers at the LJSE: the Entry Market Segment, the Standard Market Segment, and the Prime Market Segment. To be listed as part of the Standard or Prime Market Segments, companies must submit a statement of compliance with the Corporate Governance Code, and must adhere to stricter disclosure practices. The LJSE provides a website, the SEOnet system, where all the regulatory submissions of listed companies are disclosed.* *The LJSE, the Slovenian Directors' Association and Slovenian Managers Association drafted and issued the Slovenian Corporate Governance Code for Listed Companies in 2004. This was later revised in 2005, 2007, 2009 and 2016. The LJSE seems to be actively monitoring the securities market and promoting good corporate governance. In 2012, the LJSE and the Slovenian Directors' Association published a statistical analysis on companies' compliance with the Corporate Governance Code. The study showed that compliance with the Corporate Governance Code has risen in the last few years. Nevertheless, the analysis suspects that companies may be interpreting the Corporate Governance Code incorrectly, hence resulting in artificially high levels of compliance being disclosed in annual reports. In addition, explanations for lack of compliance are overly formalistic, and rarely provide company specific justifications or alternative practices.* *Lastly, indicators provided by international organisations rank Slovenia moderately well with regard to corruption and investor protection perceptions, but reforms are needed to improve the country's competitiveness levels.*
5.1. Corporate Governance Structure and Institutions *Moderately Strong*	***Strengths:*** • *The Ljubljana Stock Exchange (LJSE) is the only regulated market in Slovenia. Its market capitalisation is around 16.2% of the GDP and the volume of trades is relatively high.* • *There are three main listing tiers at the LJSE: the Entry Market Segment, the Standard Market Segment, and the Prime Market Segment. To be listed as part of the Standard or Prime Market Segments, companies must submit a statement of compliance with the Corporate Governance Code, and must adhere to stricter disclosure practices.* • *The LJSE provides a website, the SEOnet system (http://seonet.ljse.si/default_en.aspx?doc=PUBLIC_ANNOUNCMENTS) where all the regulatory submissions of listed companies are disclosed.* • *International rating agencies are active in the country; at least five of the ten largest listed companies were rated by international agencies.* • *Rulings of regulatory agencies are documented, publicly available and easily accessible.* • *International audit and law firms have presence in the country.* • *The Slovenian Directors' Association seems to be active in developing and promoting corporate governance standards and best board practices. It also has a director certification programme and numerous courses on corporate governance-related topics.* • *There seem to be a few institutions providing training courses for company directors.*
5.2. Corporate Governance Code *Moderately strong*	***Strengths:*** • *The LJSE, the Slovenian Directors' Association and the Managers' Association of Slovenia, drafted and issued the Slovenian Corporate Governance Code for Listed Companies[5] in 2004. This was later revised in 2005, 2007, 2009 and 2016.* • *The Corporate Governance Code is to be implemented under a "comply or explain" basis, and companies wishing to be part of the Standard or Prime Market listings must issue a statement of compliance with the Code. Nine out of the ten largest listed companies in Slovenia included "comply or explain" statements in their annual reports.* • *The LJSE seems to be actively monitoring compliance with the Code. In 2012, the LJSE published a statistical analysis on that (see: http://www.ljse.si/media/Attachments/Izdajatelji/Analiza_razkritij_odstopanj_izjav_CG_2012_internet.pdf). However it seems that the report is available in Slovenian only. It is hoped that this monitoring will continue in the future and that reports will be translated also in English.* • *To note that in 2014, the Slovenian Sovereign Holding - pursuant to Article 32 of the Slovenian Sovereign Holding Act - approved a "Corporate Governance Code for Companies with Capital Assets of State". The Code is to be implemented according the "comply or explain" mechanism. The Slovenian Sovereign Holding is charged with monitoring the Code's implementation.* ***Weaknesses:***

[5] In 2016, the Ministry of Economy and Technology Development, the Slovenian Chamber of Commerce and the Slovenian Directors' Association – pursuant to Article 70 of Companies Act – developed a reference corporate governance code for unlisted companies, which is also applied on a "comply and explain" basis.

Key Areas and Rating	*Strengths and Weaknesses*
	• *Some doubts have been expressed about the high Code's compliance rate disclosed by companies and whether some recommendations of the Corporate Governance Code were interpreted correctly by companies. Some explanations continue to be formalistic in nature.* • *Only two of the ten largest listed companies indicated having a designated officer monitoring the company's compliance with the Corporate Governance Code.* • *Judicial practice on corporate governance issues seems to be limited.*
5.3. Institutional Environment *Moderately Strong*	***Strengths:*** • *No significant inconsistencies were found in laws and regulations.* • *Indicators provided by international organisations rank Slovenia moderately well with regard to corruption and investor protection perceptions, but reforms are needed to improve the country's competitiveness levels.* • *The LJSE seems to be actively monitoring the securities market and promoting good corporate governance.* • *Case law is easily accessible and publicly available; however, decisions of lower courts are not always updated in a timely manner.*