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**European Bank**  
for Reconstruction and Development

## **Corporate Governance in Transition Economies**

### **FYR Macedonia Country Report**

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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](mailto: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.

**Ratings:**

**“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  $\pm 0.5$ .

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 principal legislation on corporate governance in FYR Macedonia is found in the Law on Trade Companies, the Law on Securities, the Law on Banks, and the Basic Principles of Corporate Governance in Banks. A [Corporate Governance Code](#) was approved by the Macedonian Stock Exchange in 2006. Companies listed in the “Super Listing” segment of the Macedonian Stock Exchange – which currently consist of one company - are required to disclose their compliance with the Code according to the so-called “*comply or explain*” approach. The Code is also complemented by a [Corporate Governance Manual](#).

### **Structure and functioning of the board**

Companies can be organised under a one-tier or two-tier system. The two tier system is more common among the largest listed companies and it is mandatory for banks.

The law does not explicitly assign to the board of companies all its key functions, however in banks the framework is clearer in this respect. The roles of chair of the board and CEO are split by law.

Companies and banks are required to have independent directors, however it is not clear the extent to which companies comply with this requirement, as only a minority of the ten largest listed companies disclose having independent directors on their boards. There are at least two definitions of independence: one in the Law on Trade Companies and one in the Law on Banks. Neither of the definitions is comprehensive, as they do not address any “positive” criteria for independence (i.e., what independent directors should do in practice to be considered independent such as demonstrating an independent state of mind, judgement) focusing instead only on negative “non-affiliation” criteria only.

Boards are generally small with an average of 6 members. Evidence has shown that smaller boards tend to perform better, provided that they have the necessary mix of skills and support (e.g., corporate secretary), however, this does not seem to be always the case in FYR Macedonia.

Legal entities cannot serve as board members.

Gender diversity at the board is limited.

Banks and *Public Interest Entities* (which include listed companies) must set up an audit committee, composed by a majority of supervisory board members. In both cases, the law allows independent “outsiders” (i.e., non-board members) to sit in the audit committee. We are not convinced that this is the right approach. In unlisted companies and in public interest entities organised under one tier system, it is not entirely clear if executives can sit in committee. The fact that the Corporate Governance Code recommends otherwise raises a few doubts. If this is possible, it is a major weakness.

The Corporate Governance Code recommends the establishment of other committees (i.e., a nomination committee and a remuneration committee), but only a minority of the ten largest listed companies disclose having any committees. Disclosure on board and committee meetings and activities is very limited, and it is not clear if they are playing a strategic role in the company. The board evaluation practice and corporate secretary function do not seem to be well developed.

Liability of board members, fiduciary duties and conflict of interests are detailed in the law; however, it appears that case law and judicial practice on these matters are limited.

### **Transparency and Disclosure**

All companies are required to prepare an annual report including non-financial information in addition to their financial statements. Listed companies must provide this information to the stock exchange and the regulator and are subject to fairly comprehensive on-going disclosure obligations.

Shareholders have by law strong inspection rights and companies must publish their annual reports in a newspaper; however, the law fails to require that most of this information be also provided on companies' websites, which generally provide outdated and incomplete information.

The stock exchange website hosts financial and non-financial information, having a dedicated section on issuers. Although rarely available in English, the information on the stock exchange website seems to be up to date.

Disclosure on compliance with the Corporate Governance Code, articles of association, board and committee composition, qualification of members, meetings and activities, beneficial ownership, minutes of the general shareholders meeting and transactions in company shares is particularly limited.

Financial statements of medium, large and listed companies are subject to independent external audit. Companies seem to comply with this requirement. As a note, it appears that in some instances the auditor signed the audit reports only with the name of the firm (not with his/her own name), which is contrary to the practices promoted by the Association of Chartered Certified Accountants. However, it seems that this has been rectified in recent years and no longer appears to be an issue.

### ***Internal Control***

Listed companies and banks are required to develop an internal control system, overseen by an internal audit function, audit committee and the board. Banks are also required to have a standalone compliance function.

Setting up an audit committee is recommended to companies and required for listed companies and banks. In companies, the audit committee is created by the board but the composition and scope of activities is undetermined. There is no requirement that the majority of audit committees of listed companies and banks be comprised of a majority of independent board members, neither that they be chaired by an independent member. In banks, audit committee members are appointed by the general shareholders' meeting (GSM). This practice – along with the possibility of having non-board members in the committee – should be carefully reconsidered as it might make the committee dysfunctional. Disclosure on committee's meetings and activities is limited not being possible to assess if the audit committee is playing a strategic role in the company.

Provision of non-auditing services by the external auditor is restricted; the audit committee is in charge of receiving reports by the external auditor on any non-auditing services provided and of assessing the independence of the external auditor. However, only a minority of companies disclose having an audit committee in place and it is not necessarily an independent body.

External auditors are required to rotate on a regular basis, while there are no similar requirements for audit firms. Related party transactions and conflict of interest situations are detailed by law. The regulation appears comprehensive; however, it is not clear how it is implemented in practice.

Banks are required to have a code of ethics in place. Whistleblowing has been recently regulated.

### ***Rights of Shareholders***

Basic shareholder rights seem to be adequately regulated by law and major corporate changes require supermajority at the general shareholders' meeting. Shareholders may submit a request to the board or to court to call a shareholder meeting. Shareholders are entitled to cumulative voting only if provided by the statutes. Shareholders have pre-emptive-rights. Shares provide equal rights to shareholders and registration of shareholding is required by law.

Shareholders have the right to access corporate documentation; however, access to companies' information on their website or on the stock exchange's is not intuitive and information is frequently incomplete and out-dated. Significant share acquisitions must be disclosed in the annual report. Related party transactions and conflicts of interests are regulated by law. Insider trading can result in criminal penalties; however, it is not clear whether regulators are effectively monitoring it.

Shareholders are provided with judicial mechanisms to enforce their rights, but lawsuits brought by shareholders are very rare.

### ***Stakeholders and Institutions***

The institutional framework supporting good corporate governance is generally sound, but there is room for improvement, notably in relation to the quality, accessibility and consistency of information being disclosed by companies and regulators. The Macedonian Stock Exchange has limited capitalisation and liquidity. Many companies, although listed, seem to be inactive, without their securities being traded and not complying with their disclosure obligations.

The stock exchange has approved a Corporate Governance Code, but only companies listed in the “Super Listing” segment – which currently consist of only one company – are required to disclose their level of compliance with the Code (comply or explain approach). Also, the Code has never been revised since its approval in 2006. The stock exchange developed a [Corporate Governance scorecard](#), but this method of assessing companies’ corporate governance practices is based on numerical figures, which are likely to convey a misconceived interpretation of the actual governance practice.

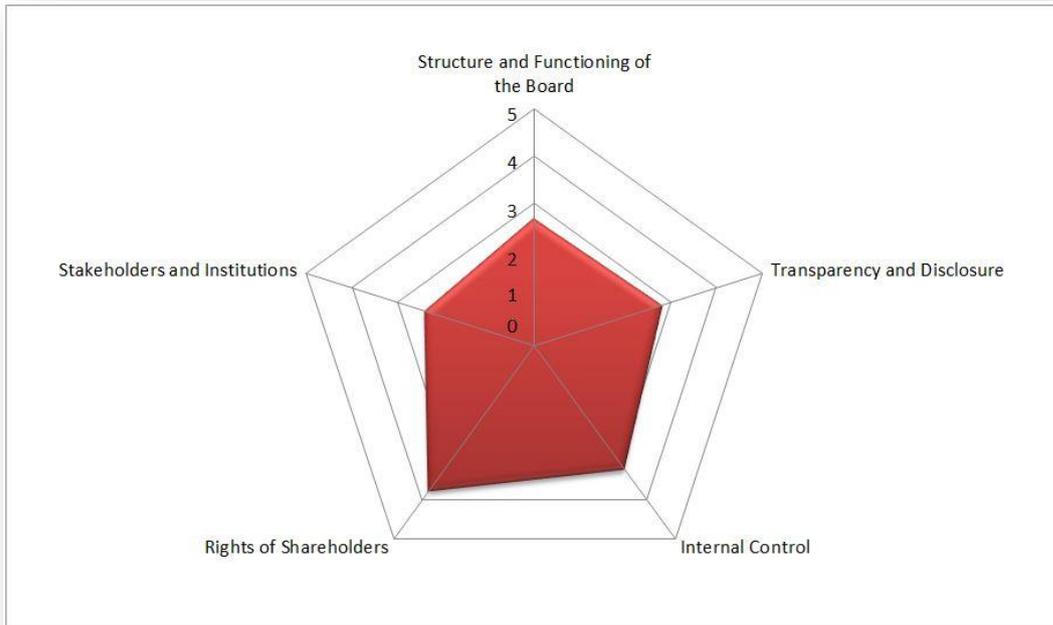
Banks are required to adopt their own code of corporate governance and to report on their compliance. It seems that banks comply with this obligation. We are not convinced this is the right approach, as codes adopted by companies should be entirely observed and not just reported on a comply or explain basis.

International law and rating firms have no significant presence in FYR Macedonia, while international audit firms seem to be largely present.

The market regulators have access to companies’ governance information and authority to address governance failures. However, there is little disclosure on sanctions and administrative proceedings being carried out. Rulings of regulatory agencies and case law collections are easily accessible.

The country performs relatively well in terms of competitiveness, easy to do business and corruption according to indicators by international organisations.

## Corporate Governance Legislation and Practices in FYR Macedonia



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
<p><b>1. Structure and Functioning of the Board</b> Weak</p>	<p>Companies can be organised under a one-tier or two-tier system. The two tier system is more common among the largest listed companies and it is mandatory for banks. The Company Law does not explicitly assign to the board all its key functions, however the Banking Law is clearer in this respect.</p> <p>The roles of chair of the board and CEO are split by law.</p> <p>Companies and banks are required to have independent directors, however it is not clear the extent to which companies comply with this requirement, as only a minority of the ten largest listed companies disclose having independent directors on their boards. There are at least two definitions of independence: one in the Company Law and one in the Banking Law. Neither of the definitions is comprehensive, as they are limited to “negative non-affiliation criteria” and do not address any positive criteria for independence (i.e., what independent directors should do in practice to be considered independent such as demonstrating an independent state of mind, judgement).</p> <p>Boards are generally small and legal entities cannot serve as board members.</p> <p>Gender diversity at the board is limited.</p> <p>Banks and Public Interest Entities (which include listed companies) must set up an audit committee, composed by a majority of supervisory board members. In both cases, the law allows “outsiders” (i.e., non-board members) to sit in the audit committee, provided they are independent. We are not convinced that this is the right approach.</p> <p>In unlisted companies and in public interest companies organised under one tier system, it is not entirely clear if executives can sit in committee. The fact that the Corporate Governance Code recommends otherwise raises a few doubts. If this is possible, it is a major weakness.</p> <p>The Corporate Governance Code recommends the establishment of the key committees.</p> <p>Only a minority of the ten largest listed companies disclose having committees. Disclosure on board and committee meetings and activities is very limited, and it is not clear if they are playing a strategic role in the company.</p> <p>The board evaluation practice and corporate secretary function do not seem to be well developed.</p> <p>Liability of board members, fiduciary duties and conflict of interests are detailed in the law; however, it appears that case law and judicial practice on these matters are limited.</p>
<p><b>1.1. Board Composition</b> Fair</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• In the one-tier system, the board is required to be comprised by a majority of non-executive members; whereas in the two-tier – mandatory for banks – no person can be a member at the same time of the management board and of the supervisory board.</li> <li>• Roles of board chair and CEO are split by law.</li> <li>• The law requires at least ¼ of the companies’ and banks’ board to be comprised of independent members and requires companies to specify those members who are independent.</li> <li>• The Corporate Governance Code recommends that executives should not be members of board committees.</li> <li>• The law provides that the boards can set up committees and the Corporate Governance Code further recommends boards to consider appointing a nomination committee, an audit committee and a remuneration committee which should consist exclusively of non-executive directors and at least one independent member. The law requires banks to have an auditing committee and a remuneration committee.</li> <li>• The Corporate Governance Code recommends that at least one board member should have financial expertise. The law does not establish any qualification requirements for board members, but it requires companies to publish the qualifications of the board members before their election. Board members of banks are required to have banking or financial expertise and their appointment requires prior approval from the National Bank. At least one member of listed companies’ audit committee must possess knowledgeable of accounting or audit.</li> <li>• It appears that legal entities cannot serve as board members.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• Boards appear to be small, with an average of 6 members. Evidence has shown that smaller boards tend to perform better, provided that they have the necessary mix of skills and support (e.g., corporate secretary), however, this does not seem to be always the case in FYR Macedonia.</li> <li>• The Corporate Governance Code recommends nomination, audit and remuneration committees to comprise a minimum of one independent member, rather than a majority. Listed companies are required to establish an audit board composed of members of the supervisory board, only one necessarily being independent. Banks are required to set up an auditing committee made up of a majority of members of the supervisory board, while the other members may be independent “outsiders” (e.g. non-members of the board).</li> <li>• In unlisted companies and in public interest companies organised under one tier system, it is not entirely clear if</li> </ul>

Key Areas and Rating	Strengths and Weaknesses
	<p>executives can sit in committees. The fact that the Corporate Governance Code recommends otherwise raises a few doubts. If this is possible, it is a major weakness.</p> <ul style="list-style-type: none"> <li>• Banks' audit committee members are elected by the GSM rather than by the board.</li> <li>• Overall, disclosure on board and committee members' qualifications is limited and incomplete.</li> <li>• None of the ten largest listed companies disclosed having a company secretary in place.</li> </ul>
<p><b>1.2. Gender Diversity at the Board (15.87%)</b> Fair</p>	<ul style="list-style-type: none"> <li>• The Corporate Governance Code recommends that annual reports of companies should include – among others - information on gender diversity at management body and supervisory board.</li> <li>• Eight among the ten largest listed companies disclose the board composition; five of them disclose having women in their boards. Among these companies, the average female representation amounts to 21.25%.</li> <li>• In total, there are 6 women among 55 board members. The average of female representation on boards of the ten largest listed companies is 15.87 %.</li> </ul>
<p><b>1.3. Independent Directors</b> Fair</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• The law requires at least ¼ of the companies' and banks' board to be comprised of independent members and requires companies to specify those members who are independent.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• Only four of the ten largest companies (including two banks) disclose having independent directors in their board – which is a legal requirement. In some cases, it is unclear the criteria used to consider the members as independent. Only one company seems to have a majority of the board comprised of independent members.</li> <li>• There are at least two definition of independence (one in the Company Law and one in the Banking Law) which does not help for clarity. The definitions of independence are not comprehensive as they concentrate on negative “non-affiliation” criteria only, without spelling out which positive requirements (i.e., objectivity of character and mind) are required from independent directors. It should be pointed out that the concepts of “non-affiliation” and “independence” are different. While non-affiliation can be established by negative criteria, independence necessarily needs objectivity of mind and character, which is a positive character that should be demonstrated, disclosed and explained in practice.</li> <li>• The chair of the board is neither required nor recommended to be independent. The Corporate Governance Code only recommends that he/she should not be a former executive.</li> <li>• There is no requirement or recommendation that board committees be chaired by independent member.</li> <li>• The Corporate Governance Code recommends committees to comprise a minimum of one independent member, rather than a majority. Listed companies are required to establish an audit board composed of members of the supervisory board, only one necessarily being independent. Banks' audit committees must comprise a majority of members of the supervisory board – not necessarily independent members – while the other members may be independent “outsiders”.</li> </ul>
<p><b>1.4. Board Effectiveness</b> Weak</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• The banking law requires that boards and audit committees conduct self-assessment of its operations and, in the case of the board evaluation, that the board notify the GSM thereon. The Corporate Governance Code recommends that the Chairman should be in charge of initiating the board evaluation. However, the practice seems to be different (see below).</li> <li>• Boards are required by law to meet at least every quarter. Boards of banks are required to meet at least once a month. Risk committees and auditing committees of banks are required to meet at least once a week and once quarterly, respectively. The Corporate Governance Code recommends that the annual report should disclose on board members attendance, as well as on the committee activities, composition and main items discussed</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• The Company Law does not explicitly assign to the board all its key functions.</li> <li>• In the two-tier system, if the supervisory board refuses to approve the proposal of management on certain issues (e.g. decrease or expansion of the scope of company's operations, key internal organizational changes, establishing and closing subsidiaries), then management can ask the general shareholders' meeting (GSM) to overturn the supervisory board decision. Although the GSM needs a two-third majority to adopt the proposal made by the management, this solution still raises a few doubts.</li> <li>• None of the companies/banks among the ten largest listed disclose having performed a board evaluation in their annual report, and the Company Law contains no requirements in that regard.</li> <li>• The Corporate Governance Code recommends that companies have a company secretary, whereas the law is silent in this respect. None of the ten largest listed companies disclosed having a company secretary in place.</li> <li>• Overall, disclosure on board and committee activities and on members' qualifications is limited and incomplete. Only three companies among the ten largest listed in the country disclose having an audit committee (two being banks) and only one company discloses having all three (remuneration, nomination and audit) committees in place. Only one company seems to disclose information on the board and committee activities.</li> </ul>
<p><b>1.5. Responsibilities of the Board</b> Fair</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• The Banking Law expressly assigns to the board its key functions.</li> <li>• The legal framework on directors' duties of care and loyalty is relatively developed, and it appears that there exists interpretation (albeit limited) by courts and other sources on the obligation of directors to act on a fully informed basis in order to comply with their duty of care.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• The Company Law does not explicitly assign to the board all its key functions (i.e. dealing with company's</li> </ul>

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<b>Key Areas and Rating</b>	<b>Strengths and Weaknesses</b>
	<p><i>strategy, budget and determining the company's risk profile).</i></p> <ul style="list-style-type: none"><li>• <i>Liability of board members and conflicts of interest are well-detailed in the law, but it appears that there is little judicial practice related to these areas.</i></li></ul>

Key Areas and Rating	Strengths and Weaknesses
<p><b>2. Transparency and Disclosure</b> Fair</p>	<p>All companies are required to prepare an annual report including non-financial information in addition to their financial statements. Listed companies must provide this information to the stock exchange and the regulator and are subject to fairly comprehensive on-going disclosure obligations.</p> <p>Shareholders have by law strong inspection rights and companies must publish their annual reports in a newspaper; however, the law fails to require that most of this information be also provided on companies' websites, which generally provide outdated and incomplete information.</p> <p>The stock exchange website hosts financial and non-financial information, having a dedicated section on issuers. Although rarely available in English, the information on the stock exchange website seems to be up to date.</p> <p>Disclosure on compliance with the Corporate Governance Code, articles of association, board and committee composition, qualification of members, meetings and activities, beneficial ownership, minutes of the general shareholders meeting and transactions in company shares is particularly limited.</p> <p>Financial statements of medium, large and listed companies are subject to independent external audit. Companies seem to comply with this requirement. As a note, it appears that in some instances the auditor signed the audit reports only with the name of the firm (not with his/her own name), which is contrary to the practices promoted by the Association of Chartered Certified Accountants. However, it seems that this has been rectified in recent years and no longer appears to be an issue.</p>
<p><b>2.1. Non-Financial Information Disclosure</b> Weak</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>All JSC must prepare an annual report including non-financial information to present and explain the company's operations over the previous year.</li> <li>Companies registered with the Macedonian Securities and Exchange Commission (MSEC) must prepare semi-annual reports and quarterly reports including basic data, changes in equity, legal status and a list of price sensitive information.</li> <li>Breach of reporting rules can result in fines and it seems that market regulators have sanctioned a number of companies over the past 5 years for breaching these rules.</li> <li>Listed companies must inform the stock exchange of price sensitive events.</li> <li>Board members of listed companies must inform the MSEC of transactions involving the company's shares. Shareholders must inform the MSEC in case of purchase of shares representing 5% of the share capital and thereafter upon any subsequent acquisitions or disposals.</li> <li>Banks must prepare a corporate governance report. The two banks of our sample seem to comply with this obligation, although there is room for improvement in the quality of information.</li> <li>The stock exchange's website seems to contain up to date information on listed companies, but the information included consists mostly of financial statements, announcements of general shareholders' meetings and price sensitive events. The information is rarely available in English, as only one company - listed in the "Super Listing" segment of the stock exchange - is required to make disclosures in English.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>Companies must make non-financial information available to shareholders at their registered office and annual report must be published in a daily newspaper, in addition to being submitted to the stock exchange and regulators. However, the law does not expressly require that most of this information be also made available on the companies' websites, which generally provide limited and out-dated information.</li> <li>Only four out of the ten largest listed companies in FYR Macedonia disclose their annual reports on their websites. The Macedonian Stock Exchange provides for the financial statement of every company listed, but only 10% of all the companies provide recent financials (no older than 2012).</li> <li>Disclosure on compliance with the Corporate Governance Code, articles of association, board and committee composition, qualification of members, meetings and activities, beneficial ownership, minutes of the general shareholders meeting and transactions in company shares both on the stock exchange' and companies' websites is particularly limited.</li> <li>Only companies listed in the "Super Listing" segment of the stock exchange - which has only one company - must comply (or explain) with the recommendations of the Corporate Governance Code.</li> <li>The Corporate Governance Code is accompanied by scorecards for one and two-tier companies. However, the extent of application of the scorecards is not clear, as their enforceability and use do not appear to be mentioned in any regulation. We have strong reservation about the scorecard, as corporate governance cannot be measured simply by numerical values. In practice, it appears that none of the ten largest companies appear to publish the scorecards with their annual reports. Further, we could not find any comply or explain report and/or meaningful explanation on corporate governance in any of the disclosed annual reports of the ten largest listed companies.</li> </ul>

Key Areas and Rating	Strengths and Weaknesses
<p><b>2.2. Financial Information Disclosure</b> Fair</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Medium, large and listed companies, and banks are required to prepare their financial statements using IFRS, and all companies of our sample publish their financial statements in line with IFRS.</li> <li>• Companies must publish a summary of the audited annual report, along with the opinion by the certified auditor, in at least one daily newspaper.</li> <li>• Listed companies must publish the full and unconsolidated audited financial statements.</li> <li>• External audit of financial statements is generally performed by one of a big four or other international firms.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• Commonly, the financial statements or annual report can be found on the stock exchange's and companies' websites, but are often available only in the Macedonian language.</li> </ul>
<p><b>2.3. Reporting to the Market and to Shareholders</b> Weak</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Breach of the disclosure obligations is sanctioned with fine and we have been reported that over the past 5 years, a number of firms have been sanctioned for breaching reporting rules.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• Listed companies are required to immediately disclose to the market any price sensitive information; however, only few companies appear to publish price sensitive in English.</li> <li>• Companies are required to make available to shareholders, the MSEC and the stock exchange – and in the case of banks to the National Bank – a significant amount of information and corporate documents; however, the law fails to require that most of this information be also provided by companies' websites and many important corporate documents are not available on companies' website.</li> <li>• Sometimes, annual reports are only available in the Macedonian language.</li> </ul>
<p><b>2.4. Disclosure on the External Audit</b> Fair</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Medium, large and listed companies and banks are required to have external audit appointed by the GSM and publish their name. Companies seem to comply with these requirements.</li> <li>• Banks are required to notify the National Bank upon appointment of their auditing firms.</li> <li>• Auditors are required to confirm, in writing, their independence from the listed companies being audited and reveal any non-auditing service being performed to the audit board. However – as mentioned above – only a minority of companies disclose having an audit board/audit committee in place.</li> <li>• The law provides for penalties applicable to audit firms and auditors who breach their obligations.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• Information about the auditors responsible for the financial statements of listed companies is not easily accessible on the stock exchange's website.</li> <li>• It appears that in some cases the audit reports were signed by the auditor only with the name of the firm, which is not in line with best practices. However, it seems that this has been rectified in recent years and no longer appears to be an issue.</li> </ul>

Key Areas and Rating	Strengths and Weaknesses
<p><b>3. Internal Control</b> Fair</p>	<p>Listed companies and banks are required to develop an internal control system, overseen by an internal audit function, audit committee and the board.</p> <p>Banks are also required to have a standalone compliance function.</p> <p>Setting up an audit committee is recommended to companies and required for listed companies and banks. In companies, the audit committee is created by the board but the composition and scope of activities is undetermined. There is no requirement that the majority of audit committees of listed companies and banks be comprised of a majority of independent board members, neither that they be chaired by an independent member. In banks, audit committee members are appointed by the general shareholders' meeting (GSM). This practice – along with the possibility of having non-board members in the committee – should be carefully reconsidered as it might make the committee dysfunctional. Disclosure on committee's meetings and activities is limited not being possible to assess if the audit committee is playing a strategic role in the company.</p> <p>Provision of non-auditing services by the external auditor is restricted; the audit committee is in charge of receiving reports by the external auditor on any non-auditing services provided and of assessing the independence of the external auditor. However, only a minority of companies disclose having an audit committee in place and it is not necessarily an independent body.</p> <p>External auditors are required to rotate on a regular basis, while there are no similar requirements for audit firms. Related party transactions and conflict of interest situations are detailed by law. The regulation appears comprehensive; however, it is not clear how it is implemented in practice.</p> <p>Banks are required to have a code of ethics in place.</p> <p>Whistleblowing has been recently regulated.</p>
<p><b>3.1. Quality of the Internal Control Framework</b> Fair</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>The supervisory board of listed companies and banks are required to organise internal audit function, as an independent organisational unit in the company. Disclosure on the internal audit functions is very limited; however, when disclosed, it seems to be reporting directly to the supervisory board.</li> <li>Listed companies and banks are required to set up an audit committee. Banks must additionally set up risk management systems (which include a risk management committee and a separate organizational unit for risk management) and organise a compliance department.</li> <li>The Institute of Certified Auditors of the Republic of Macedonia maintains registry of certified auditors, of audit companies and certified auditors – individuals, and controls their activities.</li> <li><a href="#">Institute of internal auditors</a> is established in the country.</li> <li>From the auditors' reports posted on the ten largest companies' and stock exchange websites, it appears that the external audit considers "internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances."</li> <li>Whistleblowing has been recently regulated.</li> <li>Banks are required to have a code of conduct and the two banks in our sample comply with this obligation.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>Audit committees both of listed companies and banks are not required to be made up of a majority of independent directors, or to be chaired by an independent member.</li> <li>Only a minority of the largest listed companies disclose having an audit committee in place.</li> </ul>
<p><b>3.2. Quality of Internal and External Audit</b> Moderately strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>Listed companies and banks are required to have in place an internal audit system overseen by an internal audit function, audit committee and the board members. In banks, the law expressly assigns to the supervisory board the competence for hiring and dismissing internal auditors.</li> <li>The independence control of internal audit service and of external auditors is regulated by law and expressly assigned to the audit board of listed companies. However – as mentioned above - only a minority of the largest listed companies disclose having an audit committee/board in place.</li> <li>In banks, at least one of the Internal Audit Department officers shall be an authorized auditor.</li> <li>Auditors are required to be independent and it seems that auditors declare their independence. To note that the audit committee is in charge of assessing the independence of the external auditor, however the audit committee is not necessarily made of independent board members and only a minority of companies disclosed having the audit committee in place.</li> <li>In addition to the audit committee, banks are also required to create a risk management committee.</li> <li>Large, medium, listed companies are subject to external audit.</li> <li>Banks must notify the National Bank upon the appointment of external auditors, which can be rejected in case of not meeting the National Bank's criteria.</li> </ul>

Key Areas and Rating	Strengths and Weaknesses
	<ul style="list-style-type: none"> <li>The Corporate Governance Code recommends that the audit committee supervises the activities of the executive directors or managers with respect to the role and functioning of the internal audit department.</li> <li>Performance of non-auditing services by external auditors is restricted and subject to the control of the audit committees and, in case of banks, also the National Bank.</li> <li>External auditors of listed companies and banks are subject to rotation and cooling-off periods, but there appear to be no requirement to rotate audit firms.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>Audit committees both of listed companies and banks are not necessarily independent bodies.</li> <li>Banks' audit and risk management committees may include independent "outsiders".</li> </ul>
<p><b>3.3. Functioning and Independence of the Audit Committee</b> Weak</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>At least one member of listed companies' audit committee must be knowledgeable of accounting or audit.</li> <li>At least one member of banks' audit committee must be an authorised auditor.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>The law requires audit committee of listed companies to have a majority of non-executive directors and only one independent director. Likewise, the Corporate Governance Code recommends that members of committees should not be executive members and that at least one member be independent. Banks' audit committee must comprise a majority of members of the supervisory board and the other members may be independent "outsiders". This solution raises some concerns. We believe it is important that the audit committee includes only board members if the functions delegated to the committee are typical board functions. Secondly, it is essential that those members sitting in the committee and recommending specific actions to the board follow up on such recommendations and vote on the committee's recommendations at the board meeting, therefore reinforcing their positions and the board "objective judgement". Further, we believe that audit committee members should have a full vision of the business of the company in order to express their determinations – while outsiders might only have a partial understanding. Finally, committees that include outsiders might create problems with confidentiality and accountability issues, since such "outsiders" might not be bound by duties of loyalty and care required to board members. While it is legitimate that the audit committee might need external advice or expertise on specific issues, it should be able to request such advice, but it should not allow the advisor(s) to replace the committee in its determinations and recommendations.</li> <li>There is no requirement or recommendations that audit committees be comprised by a majority of independent members or chaired by an independent member.</li> <li>In banks, audit committee members are appointed by the shareholders.</li> <li>In companies, the audit committee is created by the board but the composition and scope of activities is undetermined.</li> <li>In unlisted companies and in public interest companies organised under one tier system, it is not entirely clear if executives can sit in committee. The fact that the Corporate Governance Code recommends otherwise (see above) raises a few doubts. If this is possible, it is a major weakness.</li> <li>Disclosure on the audit committee's existence, composition and activities is very limited, so it is unclear whether they are playing a meaningful role.</li> </ul>
<p><b>3.4. Control over Related Party Transactions and Conflict of Interest</b> Moderately strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>Related party transactions and conflicts of interest are regulated by law and legislation seems to be comprehensive. For transactions that exceed 10 % of the assets of a company (either individually or together with other transactions with the same counterparty in the past 12 months), recent legislative amendments oblige listed companies to obtain an opinion by a licensed auditor on whether the transaction is on an arm's length basis - before submitting the transaction for approval by the competent body of the company.</li> <li>IFRS is fully adopted in Macedonia, including IAS 24 inherent to related party transactions.</li> <li>The annual reports, when disclosed, address related party transactions.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>It is not clear how the law is enforced in practice as there is no case law covering these subjects.</li> </ul>

Key Areas and Rating	Strengths and Weaknesses
<p><b>4. Rights of Shareholders</b> Moderately strong</p>	<p>Basic shareholder rights seem to be adequately regulated by law and major corporate changes require supermajority at the general shareholders' meeting.</p> <p>Shareholders may submit a request to the board or to court to call a shareholder meeting.</p> <p>Shareholders are entitled to cumulative voting only if provided by the statutes.</p> <p>Shareholders have pre-emptive-rights.</p> <p>Shares provide equal rights to shareholders and registration of shareholding is required by law.</p> <p>Shareholders have the right to access corporate documentation; however, access to companies' information on their website or on the stock exchange's is not intuitive and information is frequently incomplete and out-dated.</p> <p>Significant share acquisitions must be disclosed in the annual report.</p> <p>Related party transactions and conflicts of interests are regulated by law.</p> <p>Insider trading can result in criminal penalties; however, it is not clear whether regulators are effectively monitoring it.</p> <p>Shareholders are provided with judicial mechanisms to enforce their rights, but lawsuits brought by shareholders are very rare.</p>
<p><b>4.1. General Shareholders' Meeting (GSM)</b> Moderately strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Basic shareholder rights are provided by law.</li> <li>• Shareholders representing 10% of the shares are entitled to request the board of directors to call a shareholders' meeting. The board may reject the request as long as it provides the reasons for such refusal. Shareholders representing 50% of the shares may resort to court, in case the board does not call a general meeting within 24 hours. If the court confirms the shareholders' right to call the GSM, it shall do so within 8 days and in this case the costs are borne by the company. If the court refuses to call the GSM, the costs are borne by the shareholders.</li> <li>• Shareholders representing 5% of the share capital are entitled to request the addition of items to the agenda.</li> <li>• Shares carry voting rights in proportion to their value.</li> <li>• Shareholders enjoy strong inspection rights.</li> <li>• The total nominal amount of the preferred non-voting stocks cannot exceed 30% of the basic capital of the company, and in banks, it cannot exceed 10% of the total nominal amount of the bank's total shares.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• The law provides for cumulative voting only if established by the charter.</li> <li>• Overall, disclosure on the companies' websites of the minutes and supporting documents of the GSM is incomplete, hard to find or inexistent.</li> </ul>
<p><b>4.2. Protection against Insider Trading and Self-dealing</b> Fair/Moderately Strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Insider trading is regulated by law and can result in criminal penalties, including imprisonment.</li> <li>• Related party transactions and conflicts of interests are regulated by law. Related party transactions must be disclosed in the annual report and it seems that among those companies that publish their annual reports, they comply with this obligation.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• There is no evidence that insider trading regulation is well enforced in practice, as there have been no cases or convictions caused by insider trading.</li> </ul>
<p><b>4.3. Minority Shareholders Protection and Shareholders' Access to Information</b> Moderately strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Shareholders are granted pre-emptive rights, which can be waived only by a supermajority of no less than ¾ votes present at the general shareholders' meeting.</li> <li>• Qualified majority is required for major corporate changes such as increases and decreases of capital, changes of legal form, liquidation (the blocking minority shareholding for major corporate changes is 33%+1).</li> <li>• Shares carry voting rights in proportion to their value.</li> <li>• Shareholders have a general right to inspect the corporate documents, having the right to resort to court in case of any constrains.</li> <li>• Board members and shareholders owning more than 5% of the share capital of a listed company must disclose to the MSEC on trades involving the companies' securities. However, the MSEC's and stock exchange's websites provide very limited information in this respect.</li> <li>• Directors of controlled companies are subject to a stricter regime of liability and must report on the effects of any harmful transactions executed with the controlling company.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• Disclosure by companies' website is limited.</li> <li>• The law provides for cumulative voting only if provided by the charter.</li> <li>• Shareholders are entitled to claim for compensation if the board fails to remedy irregularities. There are very few lawsuits against directors though. The MSE and MSEC, in their capacity as regulators, have the ability to</li> </ul>

<b>Key Areas and Rating</b>	<b>Strengths and Weaknesses</b>
	<i>investigate complaints brought by shareholders. However, it appears that this is hardly applicable in practice.</i>
<p><b>4.4. Registration of Shareholdings</b> Moderately strong</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• <i>Registration of shareholding is required by law and the free transferability of shares cannot be restricted.</i></li> <li>• <i>Significant shareholder variations must be disclosed in the annual reports. Also, board members and shareholders owning more than 5% of the share capital of a listed company must disclose to the MSEC on trades involving the companies' securities.</i></li> <li>• <i>In banks, the National Bank must be notified of ownership structure changes. Additionally, a person who intends to acquire shares in the total cumulative nominal amount of and over 5%, 10%, 20%, 33%, 50% or 75% of the total number of shares shall submit an application to the National Bank for obtaining a prior approval.</i></li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• <i>Shareholder agreements are not regulated by law and not subject to any formalities, being as a rule, only binding among the contracting parties.</i></li> </ul>

Key Areas and Rating	Strengths and Weaknesses
<p><b>5. Stakeholders and Institutions</b></p> <p>Fair</p>	<p>The institutional framework supporting good corporate governance is generally sound, but there is room for improvement, notably in relation to the quality, accessibility and consistency of information being disclosed by companies and regulators.</p> <p>The Macedonian Stock Exchange has limited capitalisation and liquidity. Many companies, although listed, seem to be inactive, without their securities being traded and not complying with their disclosure obligations.</p> <p>The stock exchange has approved a Corporate Governance Code, but only companies listed in the “Super Listing” segment – which currently consist of only one company – are required to disclose their level of compliance with the Code’s principles (comply or explain approach). Also, the Code has never been revised since its approval in 2006. The stock exchange developed a Corporate Governance scorecard, but we have strong reservation with this method of assessing companies’ corporate governance practices, as numerical figures are likely to convey a misconceived interpretation of the actual governance practice.</p> <p>Banks are required to adopt their own code of corporate governance and to report on their compliance. It seems that banks comply with this obligation.</p> <p>International law and rating firms have no significant presence in FYR Macedonia, while international audit firms seem to be largely present.</p> <p>The market regulators have access to companies’ governance information and authority to address governance failures. However, there is little disclosure on sanctions and administrative proceedings being carried out.</p> <p>Rulings of regulatory agencies and case law collections are easily accessible.</p> <p>The country performs relatively well in terms of competitiveness, easy to do business and corruption according to indicators by international organisations.</p>
<p><b>5.1. Corporate Governance Structure and Institutions</b></p> <p>Fair/Weak</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Rulings of regulatory agencies are publicly available and easily accessible.</li> <li>• All listed companies are required to have their financial statements in line with the IFRS and to publish an annual report containing non-financial information.</li> <li>• International audit firms have significant presence in the country.</li> <li>• Banks must inform and, in many cases request approval to, the National Bank (authority in charge of supervising banks) on several governance matters. Disclosures and governance practices among banks by far outperform companies from other sectors.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• The Macedonian Stock Exchange (MSE) has limited capitalisation and liquidity. Its ‘Official Market’ provides for three listing categories for company’s shares with different corporate governance segment. Only one company is listed in the “Super Listing” segment, which requires higher governance standards. Many listed companies seem to be inactive and not complying with their disclosure obligations, although still listed.</li> <li>• International law and rating firms do not have an active presence in the country.</li> </ul>
<p><b>5.2. Corporate Governance Code</b></p> <p>Weak</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Banks are required to adopt a corporate governance code and to prepare a corporate governance report. The banks of our sample seem to comply with this obligation, although there is room for improvement in the quality of information being disclosed.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• A Corporate Governance Code exists since 2006, when it was approved by MSE. It contains 15 principles, which are based on the OECD Principles, but it has never been revised.</li> <li>• The Corporate Governance Code operates on a voluntary basis. Companies listed in the “Super Listing” segment must comply with the Code’s recommendation or explain the reasons why they fail to do so. However, currently, the “Super Listing” segment is currently comprised of only one company, which is a bank, and thus subject to a hybrid regime. In our sample, none of the companies disclose on their compliance with the Code and it appears that there is no body that monitors its implementation.</li> <li>• The MSE developed a Scorecard intended to evaluate the degree of application of the corporate governance principles set in the Corporate Governance Code. However, we have strong reservation about the scorecard, as corporate governance cannot be simply measured simply by numerical values.</li> <li>• There is no case law referring to the Corporate Governance Code.</li> </ul>

Key Areas and Rating	Strengths and Weaknesses
<p><b>5.3. Institutional Environment</b> Fair</p>	<p><b>Strengths:</b></p> <ul style="list-style-type: none"> <li>• Rulings of regulatory agencies are publicly available and easily accessible.</li> <li>• According to the <a href="#">2015 EBRD Assessment on Accessibility of Court Decisions</a>, it seems that case law is not very timely aggregated, but is fairly easily accessible to parties and the public.</li> <li>• When looking at the indicators provided by international organisations, Macedonia is relatively well positioned in terms of competitiveness, ease of doing business and corruption.</li> </ul> <p><b>Weaknesses:</b></p> <ul style="list-style-type: none"> <li>• The MCE and MSEC have access to most governance documents of regulated entities as well as the authority to address corporate governance failures and compel appropriate remedial action. However, their websites provide very little information on sanctions or investigations being carried out, so that their effectiveness is not entirely clear.</li> <li>• The stock exchange's website provides a fair amount of information. However, many companies, albeit listed, seem to be inactive, with their securities not being traded for a long period of time and no longer complying with their disclosure obligations.</li> </ul> <p>Some key corporate governance issues (e.g. responsibilities of the board, board evaluations, corporate secretary etc.) are not comprehensively regulated.</p>