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**QUARTERLY PROJECT REPORT**

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LEGAL and REGULATORY REFORM PROJECT

CONTRACTOR: East West Management Institute  
CONTRACT NUMBER: EPE-1-04-95-00075-00  
TASK ORDER NUMBER: 04  
TASK TITLE: Legal and Regulatory Reform Project  
STRATEGIC OBJECTIVES: 1.1; 1.4  
COTR: NICHOLAS KLISSAS  
CHIEF OF PARTY: Lois Cohen, ESQ.  
REPORTING PERIOD: April through June 2000  
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The Follow-On of the Legal and Regulatory Reform Project (“the Project”) continues to have four interwoven objectives for both the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS), designed to stimulate the growth of an emerging market:

- to provide comprehensive reform of commercial and non-banking laws and financial activities;
- to provide comprehensive reform of the accounting and auditing profession and standards;
- to ensure the sustainability of the Securities Commissions; and
- to educate and train designated individuals, establish associations and foster their growth as well as the development and growth of governmental awareness of effective capital market tools to create and sustain economic growth.

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## I. CHAMPIONS

The Project brings to your attention that Securities Commissioners in both the FBiH and the RS represent formidable champions.

## II. COMMERCIAL LAW ACCOMPLISHMENTS

Members of the Commercial Law team participated in and completed the following tasks from April through June 2000.

### **Federation of Bosnia and Herzegovina**

Published an article comparing provisions of the FBiH Law on Business Companies relating to corporate governance and minority shareholder rights with similar provisions in 15 European Union (EU) countries. The article was published in the April edition of *Informator*, the Users' Business Bulletin of the FBiH Securities Registry. The Project's Task Order requires that we develop and publish information packets on commercial law reform issues for the legal and business community, and the *Informator* is a suitable vehicle for disseminating this information. A copy of the article was attached to the April monthly report. **(Deliverable)**

Conducted a seminar on corporate governance for the Chamber of Commerce of Bosnia and Herzegovina. Secretaries representing companies, Cantonal and federal institutions attended the seminar, held in Neum. **(Deliverable)**

Conducted a seminar entitled "Corporate Governance in FBiH and International Comparison" in Neum. The seminar covered the following topics: corporate governance in the FBiH; a comparative analysis of disclosure requirements in the 15 member states of the EU, several Central and Eastern European countries (Croatia, Czech Republic, Hungary, Poland, Slovenia and Russia) as well as the FBiH and the RS; and a draft Calendar of Disclosure Requirements for Joint Stock Companies in the FBiH in accordance with the Law on Business Companies and Law on Securities. The local sponsor was the accounting and auditing firm FEB. 95 managers of companies from throughout the FBiH attended the seminar, held at the Hotel Neum. **(Deliverable)**

## Republika Srpska

Conducted throughout the RS a series of seminars entitled, "Corporate Governance - An Introduction to Basic Concepts." Local sponsors were the local branches of the Chamber of Commerce of Republika Srpska. Businesspeople, staff of the local Chambers of Commerce, professors, attorneys and judges attended the seminars. Televizija Republike Srpske and Radio Republike Srpske reported on the events. Seminar evaluations were attached to the April and May monthly reports. The breakdown of cities and participants was as follows:

April 19	Bijeljina	47 participants
April 26	Trebinje	25 participants
May 30	Lukavica	42 participants. <b>(Deliverables)</b>

Met with legal and economic specialists of the Chamber of Commerce of Srpsko Sarajevo (Pale) to discuss corporate governance issues in the RS. Together with these specialists, completed the Calendar of Disclosure Requirements for Joint Stock Companies in the RS in accordance with the Law on Enterprises, Law on Securities and Law on Entry in the Court Register.

Conducted a roundtable on Disclosure Requirements in the RS and International Comparison. The roundtable reviewed two documents: a comparative analysis of disclosure requirements in 15 member states of the EU, several Central and Eastern European countries (Croatia, Czech Republic, Hungary, Poland, Russia and Slovenia) as well as the RS and the F BiH; and the draft Calendar of Disclosure Requirements for Joint Stock Companies in the RS in accordance with the Law on Enterprises, Law on Securities and Law on Entry in the Court Register. The local sponsor was the Institute of Economics (Directorate for Privatization). Six specialists from the Institute and Directorate attended. **(Deliverable)**

Conducted seminars entitled "Capital Markets and Corporate Governance in the RS and International Comparison" in Banja Luka and Lukavica. The seminars covered the following topics: development of capital markets and the role of the RS Securities Commission in capital market development and regulation in RS; corporate governance in RS; a comparative analysis of disclosure requirements in the 15 member states of the EU, several Central and Eastern European countries (Croatia, Czech Republic, Hungary, Poland, Russia and Slovenia) as well as the RS and the F BiH; and a draft Calendar of Disclosure Requirements for Joint Stock Companies in RS in accordance with the Law on Enterprises, Law on Securities and Law on Entry in the Court Register. The local sponsors were the RS Securities Commission and RS Chamber of Commerce. 63 businesspeople, attorneys and staff of the RS Securities Commission and RS Chamber of Commerce attended the Banja Luka seminar, held at the Chamber of Commerce. 37 businesspeople, attorneys and staff of the Chamber of Commerce of Srpsko-Sarajevo attended the Lukavica seminar, held at the Electrotechnical Faculty. **(Deliverables)**

## **Federation of Bosnia and Herzegovina and Republika Srpska**

Published article entitled, "An Introduction to Corporate Governance and Three Models of Corporate Governance from Developed Capital Markets" in the April edition of *Banke u Bosni i Hercegovini*. The Project's Task Order requires that we develop and publish information packets on commercial law reform issues for the legal and business community, and this publication is a suitable vehicle for disseminating this information. A copy of the article was attached to the May monthly report. **(Deliverable)**

Conducted a seminar entitled, "Corporate Governance - An Introduction to Basic Concepts" for 11 journalists from the FBiH and the RS. The seminar was held in connection with the Pre-Departure Orientation Meeting for these journalists participating in the World Learning corporate governance study tour to Poland and US. **(Deliverable)**

Conducted a television interview on corporate governance in Bosnia and Herzegovina for the *Infobiz* evening television program of the Open Broadcast Network (OBN). **(Deliverable)**

### **III. ACCOUNTING AND AUDITING ACCOMPLISHMENTS**

Members of the Accounting and Auditing team participated in and completed the following tasks from April through June 2000.

#### **Federation of Bosnia and Herzegovina**

##### **Training**

Conducted three training sessions in International Auditing Standards in April. Each session covered different subjects from the textbook "Auditing," by W.F. Meissier. Thirty participants attended each session. The participants included: enterprise accountants; economists; financial analysts; and tax inspectors. **(Deliverables)**

Training in International Accounting Standards began in April. The coursework is based on the local textbook "International Accounting Standards" ("IAS"), which is an adaptation of the International Accounting Standards issued by the International Standards Committee in London. Training was conducted in the following cities: Sarajevo - 55 participants; Tuzla - 43 participants; and Zenica - 30 participants.

Accounting standards 8, 10, 11 and 16 were taught on May 3 in Sarajevo to 42 participants; on May 4 in Tuzla to 43 participants; and on May 5 in Zenica to 26 participants.

Accounting standards 12, 14, 15 and 17 were taught on May 16 in Zenica to 30 participants; on May 17 in Sarajevo to 49 participants; and on May 18 in Tuzla to 35 participants.

Accounting standards 18, 20, 21 and 23 were taught on May 31 in Sarajevo to 48 participants.

During the month of June, the team taught three sessions in each of the above-mentioned cities, each session is for approximately 3 hours. Participants were: chief accountants of state owned companies; main bookkeepers; tax inspectors; financial police; and market inspectors. **(Deliverables)**

Began training sessions in Cost Accounting in April. One session was held in April. The training program is based on the textbook "Cost Accounting," by Polimeni, Handy and Cashin.

In May, Cost Accounting training sessions were held in Livno with 21 participants and Siroki Brijeg, with 24 participants. Participants in these sessions included: enterprise accountants, economists, financial analysts and tax inspectors.

In June, Cost Accounting was taught in Livno and Siroki Brijeg. Sessions were held two consecutive days every other week, for a total of four days in each city for four hours each session. Participants were: chief accountants (75%); tax inspectors; financial police; market inspectors; and payment bureau controllers. **(Deliverables)**

In cooperation with the education section of the Institute of Accountants and Auditors, a refresher training course entitled, "Topics in Auditing" was held for those students preparing for the final exam for Certified Auditor. The session took place in Sarajevo, three teachers lectured and 23 students participated. All of the participants had taken our International Auditing course in February and March 2000. **(Deliverable)**

### **Institution building**

Met on a regular basis with Professor Jahic, Director of the Institute of Accountants and Auditors of FBiH (IAA).

Met with the new members of the Accounting Team from the Republic of Srpska for an all day planning meeting to discuss workplans, support and sharing of resources.

### **Conversion Activities**

Reviewed several approaches to conversion methodology and devised a plan to move forward in close cooperation with the RS accounting team. **(Deliverable)**

The official chart of accounts adopted by statute and effective January 1, 1999 requires some

fine-tuning. The Project worked on this in May, and then on June 5 presented to the Standards Board of the IAA a final draft of a new Chart of Accounts. A timetable for further cooperation between IAA and the Project on this initiative was agreed. **(Deliverable)**

## **Republika Srpska**

Expatriate advisor Joseph Fischl arrived in Banja Luka on April 24.

Reviewed English translation of RS Chart of Accounts, for accuracy and completeness.

Reviewed and determined that the Chart of Accounts is in compliance with IAS in substance, but not yet in form. **(Deliverable)**

Reviewed English translation of RS formatted Balance Sheet, Income Statement and Cash Flow Statement, for accuracy and completeness.

Met on an ongoing basis with Dr. Vladislav Djurasovic, President of the Executive Board of the Association of Accountants and Auditors (AAA), and briefed him on the contents of the Project's Task Order Extension and proposed workplan. Discussions included the content and conduct of the training program as well as future plans for certification and licensing of accountants and auditors.

Arranged assistance for Dr. Djurasovic and his assistant to attend a United Nations Conference for Trade and Development on Accounting for Small and Medium Size Enterprises in Geneva, Switzerland.

Briefed Minister of Finance Kondic on Project plans and progress.

Two expatriate advisors, Joseph Fischl and Donald Buddenbohn, attended a two-day seminar held by the South Eastern European Partnership on Accountancy Development on Professional Education, Training and Certification Programs for Accountants and Auditors in South Eastern Europe. Joseph Fischl made a presentation on the General Education of Accountants.

## **Training**

Translated from English into Serbian approximately 500 pages of training materials for the IAS Training Program.

International Federation of Accountants (IFAC) standards were incorporated into the educational, training and certification criteria. **(Deliverable)**

The official RS training program in International Accounting Standards (IAS) began on June 27, 2000. Materials are based the Central Asia Reform model with further enhancements. The course

will cover all 40 International Accounting Standards and will utilize a chart of accounts that is in compliance with IAS. Training materials on each IAS are being distributed to each participant. Senior members of the accounting profession in the RS assisted the Project in choosing training program participants. As a result, the participants represent a good cross section, and include chief accountants of large and medium enterprises (the majority of the group), professors and bookkeepers. Training instructors are: Joseph Fischl, Harry Louwen, Donald Buddenbohn, Dr. Vladislav Djurasovic and Dr. Dragan Mikerevic. Four members of the Project's local team are obtaining on the job training in IAS and will assist in the training. The training is being held at the Economics Faculty. Total enrollment is 65 students, who are divided into two groups. Each group will meet twice a week, for five hours per session. **(Deliverables)**.

### **Conversion Manual**

Began work on a Conversion Manual for converting enterprises from traditional Yugoslavian Accounting to International Accounting Standards (IAS). This manual will be incorporated into the IAS Training Program. The Conversion Manual is a generic version aimed at addressing most conversion issues. Upon visitation to each enterprises, this manual can be easily updated to fit the circumstances peculiar to each enterprise. **(Deliverable)**.

Began work on an internationally accepted Chart of Accounts. Briefed Dr. Vladislav Djurasovic, President of the Executive Board of AAA, and Dr. Dragan Mikerevic, General Secretary of the AAA, on the Chart of Accounts and obtained their agreement to substantive changes that will bring the Chart of Accounts in compliance with international standards.

### **Challenges**

The Project believes that while it is a challenge to win the continued cooperation of the AAA, a good relationship has been established. Accounting counterpart. More importantly, our mutual efforts contribute towards our goal of improving accounting standards and the accounting and auditing professions in the RS.

## **IV. CAPITAL MARKETS ACCOMPLISHMENTS**

Members of the Capital Markets team participated in and completed the following tasks from April through June 2000.

### **Federation of Bosnia and Herzegovina**

Kevin Fogarty joined the project as Capital Markets senior attorney. Immediately, he began to review capital markets legislation and regulations in both the FBiH and the RS.

Prepared a draft memorandum, for internal comment and subsequent submission to the FBH Securities Commission, recommending solutions to gaps in the legal framework on minority

shareholder protections. A copy of this memorandum was attached to the April monthly report. **(Deliverable)**

Completed and delivered to the FBiH Securities Commission a new, revised draft private placement regulation and associated forms. **(Deliverable)**

Completed and delivered to the FBiH Securities Commission a memorandum analyzing the FBiH Law on Business Companies, particularly from shareholder protection standpoint, and proposed regulatory approaches to solve identified problems. (At its June 5 meeting, the FBiH Securities Commission approved this approach.) **(Deliverable)**

Pursuant to the Commission's approval of the above memorandum and proposed regulatory approaches to solving the problems identified, initiated drafting a full set of corporate governance rules for the FBiH Securities Commission. **(Deliverable)**

Drafted a memorandum to the FBiH Securities Commission on the definition of the term "security," as it affects the scope of the Commission's jurisdiction. **(Deliverable)**

Met twice with members of the FBiH Securities Commission to establish a joint workplan and a timetable for the public education seminars to be conducted by the Commissioners. **(Deliverable)**

Prepared and delivered to the FBiH Securities Commission a memorandum outlining the contents of the above-mentioned seminars, namely the current status of privatization and PIFs in the Federation. **(Deliverable)**

Prepared and submitted to the FBiH Securities Commission a memorandum outlining: 1) the target groups to be included in these seminars, namely managers and supervisory board members of PIFs: custody banks; the judiciary, lawyers and prosecutors charged with implementing the capital markets laws; the media; and staff, management and supervisory board members of limited liability companies and joint stock companies; and 2) the subject matter that should be covered in each seminar. Developed seminar materials and made all logistical arrangements. **(Deliverable)**

Met with members of the British Know How Fund to discuss and review capital market development in the FBiH. Specifically, we discussed the Securities Commission, forthcoming regulations and the status of the proposed securities trading system, broker training and licensing. **(Deliverable)**

Met with members of the USAID Privatization Project several times to review and discuss: a) the PIF Licensing regulation they are currently producing for the Securities Commission; and b) topics and subject matters that Commissioners will present in upcoming public education seminars on PIFs for the press. Also, we discussed the necessity for the Commission to begin to

publicize that management companies and PIFs are filing application forms. **(Deliverable)**

Exchanged correspondence and met with members of the USAID Privatization Project to discuss: the issue of whether FBiH legislation permits debt-for-equity swaps; the prospective problem of achieving a quorum at a PIF shareholder meeting where there is no proxy machinery; and other privatization issues. **(Deliverable)**

Met with senior staff of the World Bank to discuss a timetable for the FBiH Securities Commission to prepare an official budget and apply for funding from the World Bank and other donors. **(Deliverable)**

Attended the first meeting of Securities Commission Working Group. The Group was established to review the FBiH capital markets legislation with a view towards identifying provisions requiring amendment. **(Deliverable)**

Continued to monitor new regulations and licenses issued by the Securities Commission.

## **Republika Srpska**

In April, the Project's capital markets attorneys spent two days in Banja Luka and met with the proposed RS Securities Commissioners to discuss all relevant regulatory issues and outline a workplan for the remaining months of the Project.

Researched and wrote a memorandum of legal opinion on whether or not there existed a legal basis for the RS Government to name and create a Temporary Securities Commission. **(Deliverable)**

Organized and hosted a symposium (including professionals from the Project's offices in Sarajevo and Banja Luka; a representative from USAID, Banja Luka; and nominated RS Securities Commissioners) to consider legal issues and other anticipated requirements of the future Commission. Established a framework of priorities for the future Commission. On two occasions, met with the proposed President of the RS Securities Commission to establish priorities. **(Deliverable)**

Prepared draft of Rules of Work for the Securities Commission. Reviewed and commented on various issues including issues relative to Commission sessions. At its inaugural session on May 26, the RS Securities Commission adopted its Rules of Work. **(Deliverable)**

Prepared a legal memorandum outlining amendments and revisions to the draft By-laws created by the Securities Commission Expert Team for the proposed Securities Commission. Following its review of our memorandum, the Expert Team incorporated our recommendations. At its inaugural session on May 26, the RS Securities Commission adopted its By-laws. **(Deliverable)**

Reviewed and commented on various issues outlined in the RS Securities Commission's Rules of Ethics, including representations of Commission, confidential information, Commissioner and employee transactions, conflicts of interest, negotiation for future employment and limitations on political activities. At its inaugural session on May 26, the RS Securities Commission adopted its Rules of Ethics. **(Deliverable)**

Prepared a draft budget and financial plan for the RS Securities Commission to be presented to the Government. Reviewed and suggested modifications to the eight-month budget. At its inaugural session on May 26, the RS Securities Commission adopted its Work and Financial Plan. **(Deliverable)**

Consulted with the RS Securities Commission on the text of the press release announcing the Commission's inaugural meeting, outlining the meeting agenda and explaining the Commission's role. Coordinated invitations to members of the international community to attend the meeting. Videotaped the event for the Commission's archives.

Proposed a new Mission Statement for the RS Securities Commission. The core principles identified in the Mission Statement are transparency, integrity, freedom and enforcement. **(Deliverable)**

Reviewed and commented on the calendar year 2000 Financial Plan of the RS Securities Commission to be presented to the Government. **(Deliverable)**

Contacted Jean-Pierre Cristel, Deputy Secretary General of the International Organization of Securities Commissions (IOSCO) regarding membership of the RS Securities Commission in this international organization. Assisted in preparing membership application for the Commission, and prepared a letter from Branka Bodroza, President of the RS Securities Commission, to the Soros Open Society Fund requesting funds for initial membership fee. **(Deliverable)**.

Prepared a memorandum for the RS Securities Commission proposing regulatory solutions to potential self-dealing and conflict-of-interest situations in connection with Privatization Investment Funds (PIFs). **(Deliverable)**

Prepared and delivered to the RS Securities Commission a draft Regulation on Confidential Information, outlining both control of sensitive information and freedom of information. A copy of the draft regulation was attached to the June monthly report. **(Deliverable)**

Prepared and delivered to the RS Securities Commission a model prospectus, as well as a copy of the FBiH's PIF prospectus. Drafted a memorandum explaining possible adaptations for use in the RS. Prepared modifications of the model prospectus for bank issuers. A copy of the memorandum and prospectus were attached to the June monthly report. **(Deliverable)**

Prepared a memorandum advising the RS Securities Commission on how the Register of Issuers should comply with provision of the Law on Enterprises. A copy of this memo was attached to the June monthly report. **(Deliverable)**

Reviewed and commented on proposed regulations on the Conditions and Procedures for Founding PIFs and Fund Management Companies.

Reviewed and commented on an outline and proposed script for a USAID Public Education Project television program on PIFs and the Securities Commission. **(Deliverable)**

Prepared a memorandum recommending revisions to the draft PIF regulations, prepared by the Securities Commission Expert Team. The Team incorporated our recommendations, in full, into the Regulation. **(Deliverable)**

Attended May 31 seminar co-sponsored by the RS Securities Commission and British Know How Fund, on "Establishment of Privatization Investment Funds."

At the request of the Office of the High Representative (OHR), prepared a memorandum of comment on the RS Law on Enterprises and another memorandum on the proposed Law on Entrepreneurial activity. Amendments to the former and a draft of the latter are now pending in RS National Assembly. Attended meetings (in Sarajevo with OHR, and in Banja Luka with OHR and the RS Ministry of Industry and Technology) to discuss these laws. Copies of both memoranda were attached to the June monthly report.

### **Federation of Bosnia and Herzegovina and Republika Srpska**

In cooperation with World Learning, arranged for representatives of the FBH and the RS Securities Commissions to attend a US Securities and Exchange Commission (US SEC) training seminar on securities law enforcement.

### **Challenges**

Obtaining approval of the RS Securities Commission budget approved by the RS Government and ensuring that the funds are allocated.

Installing computer equipment at the RS Securities Commission.