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QUARTERLY PROJECT REPORT

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LEGAL and REGULATORY REFORM PROJECT

CONTRACTOR: East West Management Institute
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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: January through March 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 two 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 the government of the RS has appointed a temporary Securities Commission. Securities Commissioners in the FBiH and the newly-appointed temporary Commissioners in the RS represent champions.

II. COMMERCIAL LAW ACCOMPLISHMENTS

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

Federation of Bosnia and Herzegovina

Work with in-country institutions

Met with Mr. Sead Delic, Assistant to the FBiH Minister of Energy, Mining and Industry, to present and discuss our comparative analyses of the Law on Business Companies and European Union (EU) Directives 82/89, 77/91, 68/151 and 78/855. **(Deliverable)**

Continued to work closely with Mr. Firdus Hamzagic, Deputy Director of the FBiH Securities Registry FBiH on corporate governance issues. Pursuant to his request, Mr. Mazullo wrote an article comparing corporate governance and minority shareholders' rights in 15 EU countries. The article was published in *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 January 2000 monthly report. **(Deliverable)**

The Law on Procedure of Legal Entities' Entry into Court Register was published in the *Official Gazette of the Federation of Bosnia and Herzegovina*, and became effective as of February 21, 2000. The Project completed the translation of the Law. **(Deliverable)**

Met Mrs. Naida Markovic, Legal Advisor with the energy conglomerate Energoinvest, to discuss problems the company has encountering in re-registration in the FBiH in compliance with the Law on Business Companies.

Submitted to the FbiH Securities Commission a “Calendar of Disclosure Requirements for Joint Stock Companies in the FBiH.” The calendar outlines disclosure requirements in compliance with the Law on Business Companies and the Law on Securities. A copy of the calendar was attached to the March 2000 monthly report. **(Deliverable)**

Seminars

Held a Roundtable entitled - “Comparative Analysis of Collateral Lending Laws in Poland and BiH” for the candidates chosen to attend the upcoming World Learning Study Tour to Poland. We presented an overview of legislation in Poland, the FBiH and the RS. **(Deliverable)**

Conducted a roundtable on “Disclosure Requirements of Joint Stock Companies in FBiH.” The local sponsor was the Economics Faculty of Sarajevo University. 10 persons from the following institutions attended the roundtable: Economics Faculty; Share Registry of FBiH; Union of Veterans; Center for Women; Gospodarska Banka; and the USAID Privatization Project. This was the second informal roundtable during the development phase of a calendar of disclosure requirements. **(Deliverable)**

Conducted a seminar, in Mostar, on “Disclosure Requirements of Joint Stock Companies in FBiH in accordance with the Law on Business Companies and the Law on Securities.” Presenters were Tarik Selimovic and Geoffrey Mazullo, of LRRP’s staff. The local sponsor was the Economics Faculty of Mostar University. Six post-graduate students attended the seminar. **(Deliverable)**

Taught a seminar on corporate governance and financial reporting to post-graduate students of the Economics Faculty of Sarajevo University. **(Deliverable)**

Conducted a seminar entitled “Corporate Governance, an International Comparison and in FBiH”, in Tuzla. The local sponsor was the Tuzla branch of the Association of Accountants and Auditors of FBiH. Eighty-two businesspeople, accountants, auditors and students attended the seminar and the Canton’s television station reported on the event. An evaluation of the seminar was attached to the January 2000 monthly report. **(Deliverable)**

Conducted a seminar, in Bihac, entitled, “Practical Application of the Law on Business Companies.” The local sponsor was the Chamber of Commerce of Unsko-Sanski Canton. Presenters at the seminar were Dr. Jozo Sovic of the Economics Faculty, Sarajevo University; Mr. Sead Delic, Assistant to the Minister, Ministry of Energy, Mining and Industry of FbiH; Rusmir Sabeta, USAID LRRP; and Geoffrey Mazullo, USAID LRRP. Twenty-six businesspeople, chamber of commerce staff and municipal officials attended the seminar. Television and print media reported on the event. A copy of the participant list was attached to the February 2000 monthly report. **(Deliverable)**

Met with staff of the USAID Privatization Project in order to coordinate drafting of a corporate governance training program for board members of newly-privatized companies in FBiH. The USAID Privatization Project's task order mandates such a training program. We identified corporate governance issues that had already been covered in the Project's seminars, those that had not yet been covered and those that the USAID Privatization Project should cover. **(Deliverable)**

Republika Srpska

The RS Parliament approved the first draft of the Law on Registered Pledges on Movables and Stakes. **(Deliverable)**

Conducted a roundtable in Banja Luka on the first draft of a "Calendar of Disclosure Requirements for Joint Stock Companies in the RS." The calendar outlines disclosure requirements in compliance with the Law on Enterprises, Law on Securities and Law on Entry in the Court Register. The local sponsor was the Institute of Economics, which is attached to the Directorate for Privatization. Eight specialists from the Institute, Directorate and USAID projects in RS attended the roundtable. **(Deliverable)**

Incorporating suggestions made at the above-mentioned roundtable, completed the second draft of a "Calendar of Disclosure Requirements for Joint Stock Companies in the RS."

Federation of Bosnia and Herzegovina and Republika Srpska

Participated in designing the training program for and the Selection Committee meeting to select participants for the World Learning corporate governance study tour for journalists. Journalists from both FBiH and RS will participate in the study tour. **(Deliverable)**

Conducted a Pre-departure Orientation entitled, "Corporate Governance – An Introduction to Basic Concepts" for journalists from the FBiH and the RS who will participate in the World Learning corporate governance study tour to Poland and the US. **(Deliverable)**

Participated in the Pre-departure Orientation Meeting for the World Learning study tour on share registries to Romania and the United States. The Project delivered a presentation on "The Role of the Registry and Shareholder Rights, Market Transparency and Market Efficiency." **(Deliverable)**

Cooperation with other donors

Held discussions with the Legal Adviser for the NRD (Norwegian Registry Development) concerning delays encountered with passage of the Law on Registered Pledges on Movables and Stakes in the FBiH and RS, and implementation of NRD's project to establish registries in both entities. **(Deliverable)**

Met with representatives of Louis Berger International, Inc. and the President of UNACO, U.S.A. They are working to establish a free trade zone at the Tuzla airport. The Project briefed them on the commercial law environment in the FBiH. **(Deliverable)**

Met with Brian E. Cass, of the World Bank, to brief him on the commercial law framework and investment climate in Bosnia and Herzegovina. Mr. Cass is drafting a pre-project assessment for a new World Bank project. **(Deliverable)**

Met with Hans Shrader, of the World Bank, on issues related to the Law on Business Companies. Specifically, Mr. Schrader wanted to clear up issues related to joint stock company registration and re-registration with the Securities Commission and the Court Registry, as required by the Laws. **(Deliverable)**

Challenges

In following the legislative progress of the draft Law on Registered Pledges on Movables and Stakes in both the FBiH and the RS, the Project continued to maintain regular contacts with both Ministries of Justice, as well as attend and monitor sessions of the Parliaments.

III. ACCOUNTING AND AUDITING ACCOMPLISHMENTS

Members of the Accounting and Auditing Team participated in and completed the following tasks from January through March 2000.

Federation of Bosnia and Herzegovina

Education/Seminars

Reviewed the FBiH Income Tax law with a long-term goal of preparing a tax book reconciliation for our seminars.

In accord with our new Task Order, members of our accounting team reviewed all our previous training activities in order to incorporate IFAC training standards for educational programs. **(Deliverable)**

Provided technical assistance to the Federation's IAA Board on Accounting Standards regarding review and revision of the Chart of Accounts. **(Deliverable)**

Audit Book Study Program

Graduated five more groups, consisting of 85 persons, from our Auditing Book Study Program in the FBiH. The program was conducted in five cities: Livno; Srioki; Brijeg; Zenica; and Tuzla.

This was our second offering of this series in the FbiH, where we have now covered all major cities. A total of 240 persons, in eight separate groups, have participated in this program, which is directed at introducing IFAC Audit Standards. Within this number are 25 participants from the RS. **(Deliverable)**

Intermediate Accounting Book Study Program

Further to our overall plan, final program preparations and translation of an "Intermediate Accounting" Book Study Program were completed this month. The team used a United States standard textbook, "Intermediate Accounting," Meigs and Meigs. All International Accounting Standards are incorporated into this program. Instructional materials were completed in February and training sessions began in March.

Cost Accounting Book Study Program

Eighty participants in five cities throughout the FbiH successfully completed our ten-week Cost Accounting Book Study program. Attendees were provided practical knowledge on cost-volume-profit analysis, cost control and pricing. All relevant IFAC and IASC materials were incorporated into these sessions. Attendees represented financial professionals from industry, financial services and government. **(Deliverable)**

Audit Study Program

Held a special session of our audit study program. This program was based on IFAC International Audit Standards, and is being offered in the Federation as preparation for the IAA "Certified Auditor" Exam. This course was the first ever offering of a "Becker-type" CPA Review in the region. There were 230 students enrolled. **(Deliverable)**

Investment Company Accounting

Completed a first draft translation of the AICPA Audit and Accounting Guide, Audits of Investment Companies. The text underwent final review by members of the FbiH Securities Commission and FbiH auditing firms. The final translation was shared with the Project's RS staff, the Securities Commissions in both entities and private practitioners. **(Deliverable)**

Self-Regulatory Development

JAFIS offered two seminars in January, "Annual Financial Statements for 1999", attracted 500 participants and "Annual Financial Statements for Budget Users" attracted 400 participants.

The JAFIS January newsletter included: 1) information on association activities; 2) the goals of the South Eastern Europe Accounting and Auditors Association; 3) results of the membership satisfaction questionnaire; and 4) an Auditing Program for Cash enterprises.

The JAFIS February monthly newsletter focused on the profession of the internal auditor and the IFAC world standard.

The JAFIS Regulatory Counsel's monthly meeting approved a memorandum of understanding that established a working group for development of the South Eastern Europe Accounting and Auditors Association. JAFIS attended the first working group meeting of the "South Eastern European Partnership on Accountancy Development" in March.

Completed final preparations for "Accounting 2000." The event is scheduled for April 6-7, 2000 in Sarajevo. It will be a two-day symposium, with numerous regional experts. The symposium's emphasis will be on harmonization efforts throughout the world. Additionally the symposium will discuss the relevance of accounting and auditing in privatization, foreign investment and capital markets.

Republika Srpska

Assisted in the preparation, translation and publication of the International Standards on Auditing for the RS. All of the 32 core audit standards were adopted in the RS and published in the Official Gazette, and are now available to the profession.

Our first three groups of participants in the Financial Management Book Study Program for the RS graduated in January. 95 participants represented the cities Srpsko Sarajevo, Doboj, and Banja Luka. We are planning to offer this course in Prijedor (Gradiska), Bijeljina and Trebinje in February.

A course in Financial Auditing I and II was prepared, organized and offered in Pale. Unfortunately, although confirmed and verified, no participants attended.

Two accounting experts from USAID Washington visited the project in January in order to perform both a review of our current project and determine future accounting training needs in both the FBiH and the RS. As a result of this intensive review, they determined to add additional staff and resources in the RS so that our program in the RS will resemble our accomplishments in the FBiH.

Prepared report on Recommendations for Accounting and Auditing for the Task Order Extension.
(Deliverable)

Met with and briefed Dr. Vladislav Djurasovic, President of the Executive Board of the Association of Accountants and Auditors of the Republic of Srpska (AAA), on the current status of the Project and its future plans in the RS. Prepared briefing memo on meeting.
(Deliverable)

Met with Milka Lukic and Milan Kovacic, accountants at the USAID Privatization Project, to discuss the current state of the accounting profession in the RS to discuss how best to fulfill our hiring needs for the extension period.

On three separate occasions, met with and briefed USAID on our recommendations for future deliverables in the Project's task order extension:

Together with USAID, met with Dr. Vladislav Djurasovic, President of the Executive Board of the Accounting Association of Accountants and Auditors (AAA) Djurasovic and Dr. Dragan Mikerevic, General Secretary of the Accounting Association, and briefed them on the accounting component of our Task Order Extension.

The FBiH accounting team evaluated the RS Chart of Accounts and compared the two documents, with a long-term goal of merging the two entities' charts of accounts. **(Deliverable)**

Due to the response we received from our first Financial Management Book Study, we offered another session in the RS. 135 students from Prijedor are receiving an accelerated version. The instructional materials provide exposure to International Accounting and Auditing Standards, along with fundamental guidance on capital markets and corporate governance. **(Deliverable)**

Reviewed the International Federations of Accountants (IFAC) educational guidelines model, in preparation for our training modules, as required by Task Order extension in the RS.

Translated from local language into English the pre-established formats of the Balance Sheet, Income Statement and Cash Flow Statement as well as the Accounting Chart of Accounts. **(Deliverable)**

Federation of Bosnia and Herzegovina and Republika Srpska

Participated in the selection of ten participants to attend the upcoming World Learning study tour, "A View into Auditing Enterprises." Five persons from the FBiH and five from the RS were selected. The attendees are geographically dispersed and include representatives from each entity's Self-Regulatory Organizations. Cooperated with World Learning in developing the above-mentioned study tour.

Challenges

The main challenge of the accounting program in the RS remained obtaining the full and on-going cooperation of Dr. Vladislav Djurasovic's, President of the Executive Board of the AAA.

Additional challenges include:

Finding seven qualified local accounting professionals to conduct all of the accounting training anticipated under the Project's new task order; and

Cooperating with local institutions in both entities to contribute towards a process in which both entities develop their accounting abilities with similar standards of education and accountability.

Recommendations / Solutions

We recommend that consideration be given to upgrading training capacity in the RS and merging this into the base established in the FBiH.

IV. CAPITAL MARKETS ACCOMPLISHMENTS

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

Federation of Bosnia and Herzegovina

Submitted to the FBiH Securities Commission a proposed regulation on Private Placements together with Annexes containing an Abridged Prospectus and an Investor Questionnaire. A copy of the regulation was attached to the January 2000 monthly report. Discussed with President Edib Basic and Commissioner Domljan the principles of investor protection underlying the adoption of the Private Placement regulation. In response to the Commission's request, researched the regulations and laws of other countries (Croatia, Czech Republic, Poland, Russia, Slovenia, et al) to learn from other countries' approach regarding private placements.

Subsequent to our drafting a Private Placement regulation for the Commission, the Commission drafted a new version. The team reviewed such and determined that while it is very similar to the regulation adopted in Croatia, the Commission's version fails to provide important investor protections. Therefore, we once again advised the Commission of our recommendations on investor protections.

Met with the Commission on March 15, 2000, to clarify issues relating to the private placement regulation and the content of the abridged prospectus. As a result of this discussion, agreed to draft a new private placement regulation to be discussed with the Commission.

Finalized and translated our recommendations on amendments to the Capital Markets Laws (e.g., Law on Securities, Law on the Securities Commission and Law on the Securities Registrar), pursuant to the request of President Basic. Before presenting these proposed Amendments to the Commission, we met with members of the USAID Privatization Project, Michael Sommers and two former members of the expert team that drafted these laws. Similarly, the Capital Markets Team reviewed and discussed the proposed amendments drafted by the USAID Privatization Project. **(Deliverable)**

Reviewed and discussed with the USAID Mission the appropriate approach toward deliverables for the Securities Commission on the topic of corporate governance. It was agreed that the

Capital Markets Team would present the Commission: 1) a regulation adopting OECD's Principles of Corporate Governance; 2) a proxy solicitation regulation; and 3) a Corporate Governance Disclosure Calendar.

At the request of the Commission, translated the 1999 Annual Report of the FBiH Securities Commission into English.

Completed the second draft of a proxy solicitation/corporate governance regulation (which is comparable to the U. S. Securities and Exchange Commission's regulation on the solicitation of proxies), and presented it to the Commission in February. Part of the regulation relates to the mechanics of shareholder meetings and execution of a proxy (e.g., a form of proxy is attached to the regulation). The goal of the regulation is to ensure that shareholders obtain substantive information on all agenda items enabling them to make informed voting decisions. **(Deliverable)**

Finalized a second draft of our Corporate Governance Regulation for the Commission. This regulation represents an effort to incorporate OECD's principles of corporate governance into the Commission's regulatory scheme.

Met with Edib Basic, President of the Securities Commission and Ekrem Duranovic, Securities Commission staff member, to advise them on accounting issues in Privatization Investment Funds (PIFs).

In response to a request of the FBiH Securities Commission, completed a memorandum of comments on the following regulation adopted by the Commission in November 1999: The Book of Regulations on the Method of Entry and Maintenance of the Register of Issuers. A copy of the memorandum was attached to the March 2000 monthly report. Met with the Commission to discuss our memorandum on the Register of Issuers. The Commission team members accepted our recommendations. **(Deliverable)**

Drafted a speech for President Basic on the accomplishments of the Commission in its first year of operation. President Basic will deliver this speech in Greece to a conference bringing together Securities Commissioners from Central Europe.

Cooperated with the Commercial Law team in reviewing drafts of the "Calendar of Disclosure Requirements for Joint Stock Companies in the FBiH." Checked all footnoted reference to FBiH capital markets legislation, in English and local language.

Coordinated with Dr. Robert Stone of the British Know How Fund (BKHF) to continue to exchange information about our respective activities and to coordinate our overall capital market efforts. In particular, we discussed the BKHF's plans regarding the licensing and training of broker/dealers.

Republic Srpska

Reviewed and revised the proposed budget for the RS Securities Commission for presentation to Prime Minister Dodik and Parliament. **(Deliverable)**

Reviewed the RS Law on Privatization Funds, and two regulations prepared by the expert team, for our Banja Luka office. Prepared a written memorandum outlining troubling issues and inconsistencies in the laws.

Coordinated arrangements for Bozana Slijivar, proposed Deputy President of the RS Securities Commission, to attend the US Securities and Exchange Commission's International Institute in Washington, D.C. in April 2000. Prepared a written presentation on capital market development in the RS for her to deliver at the Institute. **(Deliverable)**

Attended two meetings of the Steering Committee of the Government of the RS on privatization and Parliament's approval of Securities Commissioners.

Met separately with Dr. Rajko Tomas of the USAID Macro Economic Project, and Branka Bodroza, proposed President of the RS Securities Commission, and briefed them on the current status regarding approval of RS Securities Commissioners.

Reviewed the Privatization Investment Fund Law and Regulations, prepared by the RS Securities Commission Expert Team. Prepared comments on the Regulations, presented them to the Expert Team and reviewed them with Expert Team. **(Deliverable)**

Reviewed RS Securities Commission By-laws prepared by the Expert Team. Prepared an analysis comparing these By-laws and the model By-laws provided by the Project. **(Deliverable)**

Prepared briefing memo for USAID on proposed Task Order Extension. **(Deliverable)**

Prepared briefing memo for Thomas A. Praster, First Secretary of Economic Affairs for the US Embassy, on the RS political situation and its impact on Parliament's non- approval of the proposed Securities Commissioners in the RS. **(Deliverable)**

Prepared briefing letter to Thomas A. Praster, First Secretary Economic Affairs of the US Embassy on the urgent need of a Securities Commission and the history of Parliament voting to approve Commissioners. **(Deliverable)**

Met with Dr. Robert L. Stone of the British Know How Fund and briefed him on Parliament voting to approve Securities Commissioners and Commission's budget. **(Deliverable)**

Prepared briefing report for Duane E. Sams, Head of Market Economy Unit of the Office of the High Representative on the urgent need of a Securities Commission and the history of Parliament voting to approve Commissioners. **(Deliverable)**

Prepared a briefing report, and briefed USAID Sarajevo, on the need for financial disclosure and corporate governance in the RS. **(Deliverable)**

Prepared a briefing report for USAID and OHR on the March 20, 2000 session of Parliament. This session was to vote on approval of the RS Securities Commission was supposed to occur, but the session was delayed and no vote was taken. **(Deliverable)**

Met with Robert W. Smith, Financial Services Advisor; Garth Armstrong, Economic Advisor; and Russell Watson, Assistant Programme Manager of the British Department for International Development and George M Lajsic of Denton Wilde Sapte. Briefed them on the current status of the Project developments in the constitution of the RS Securities Commission.

Met with David Whitehead, Chief of Party of the USAID Macro Economic Project and briefed him on the history and current developments in the constitution of the RS Securities Commission in preparation for his meeting with Prime Minister Milorad Dodik.

Met with Brian Arden of the USAID Public Education Project and briefed him on Privatization Investment Funds (PIFs) and the background regarding formation of a Securities Commission in the RS.

Federation of Bosnia and Herzegovina and Republika Srpska

Conducted (in Neum) a conference on capital market development and regulation in Bosnia and Herzegovina that brought together for the first time the FBiH Securities Commission and proposed members of the RS Securities Commission.

Reviewed and critiqued the presentation of Lieutenant Colonel Brian Buxton, SFOR, entitled, "An Introduction to Financial Statement Analysis" to be delivered at the Neum Conference bringing together FBiH Securities Commissioners and proposed RS Securities Commissioners.

Prepared a report on Accounting for Closed End Investment Funds and distributed it to the FBiH Securities Commissioners and the RS proposed Securities Commissioners who attended the Neum Conference. **(Deliverable)**

Participated in selection committee meeting to select participants for World Learning Study Tour on PIF Operations, Regulation and Regulatory Enforcement. The study tour will visit Slovenia and Poland in May 2000. An equal number of participants were selected from the FBiH and the RS. Conducted Pre-departure Orientation for study tour participants.

Challenges

Ensuring that a permanent Securities Commission is proposed by the RS Government and approved by Parliament.

Ensuring that the RS Government agrees with and introduces proposed amendment to the Law on Securities, which will establish the Securities Commission as the authority for corporate governance supervision.