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FINANCIAL REPORTING REGULATION FOR THE LISTED COMPANIES: ANALYSIS FOR SELECTED EASTERN EUROPEAN TRANSITIONAL COUNTRIES IN THE PROCESS OF EU ENLARGEMENT

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Abstract

Financial reporting of listed companies is very important element for efficient functioning of capital markets ; therefore, the developed countries have increased mandatory reporting requirements during the last decade. Since the regulation of financial reporting in the countries in transition is trying to follow up with modern trends the main objective of this paper was the analysis of financial reporting regulation for listed companies in six Eastern European countries in different stage of EU accession (Slovenia, Croatia, Bosnia & Herzegovina, Serbia, Montenegro and Macedonia). Furthermore, the research includes analysis of the financial reporting practice based on empirical insight into the web sites of securities commissions and local stock exchanges. The analysis of the current financial reporting regulation has revealed that the EU member state and the two candidate countries have more harmonized financial reporting regulation with the EU requirements in comparison with the potential candidate countries. The observed differences from the regulations are transferred into the financial reporting output presented on the web sites of commissions and stock exchanges.

Key words: *Regulation, financial reporting, listed companies, EU.*

1. INTRODUCTION

Financial accounting and reporting represents an important pillar for effective functioning of capital markets, since it is aimed at reducing information asymmetry and “lemons problem”. After the corporate scandals (Enron, WorldCom, Parmalat, etc.) which also included accounting frauds, financial reporting has drawn more attention from the public and regulators and consequently new regulations are adopted in the USA and the EU. New regulations are introduced in order to achieve better oversight of financial reporting and auditing practices of listed companies.

From the viewpoint of many transitional Eastern European countries implementation of modern standards and codes, including accounting and auditing standards, is very challenging and difficult. According to the available sources it becomes clear that there is very limited literature on financial reporting regulation and practice in the Eastern Europe. Therefore, we have decided to analyze financial reporting regulation and practice for the following six countries: Slovenia, Croatia, Bosnia & Herzegovina, Serbia, Montenegro and Macedonia. All countries from the region (except Slovenia) are trying to become EU members. Namely, Slovenia has become EU member in 2004, while Croatia and Macedonia are candidate countries. Three countries from the region, Bosnia & Herzegovina, Montenegro and Serbia are potential candidate countries.

This paper contributes to the accounting literature by providing detailed exploration of the current de jure aspects of financial reporting for the listed companies in the selected six Eastern European transitional countries. Financial reporting of listed companies in all the six sampled countries for many years has been based on IFRS or on national GAAP, which is based on IFRS. But, detailed insight into the regulation reveals significant differences in mandatory reporting requirements for listed companies among the sampled countries. An important stimulus for the current and future development of financial reporting regulation in selected Eastern European transitional countries is the EU accession process. In the context of accession process it is very interesting to analyze formal harmonization of national regulative with current EU requirements by countries with different accession status. Additional contribution of the paper results from the detailed empirical insight in the websites of the national securities commissions and bourses in order to reveal reporting practice and the real financial reporting output available to investors. Empirical research mainly reveals that differences identified in the regulation are also transferred into the financial reporting output on the website of securities commissions and/or bourses.

The paper is organized in 6 sections. In the Section 2 we analyze the previous literature on financial reporting in transitional Eastern European countries and literature on de jure and de facto harmonization of financial reporting. Financial reporting regulation in the EU is described in the Section 3, while the national regulation for the selected six Eastern European transitional

countries is presented throughout the Section 4. In the Section 5 we have conducted detailed comparison of reporting requirements in the six selected transitional countries with EU requirements in order to measure the level of formal harmonization. The Section 6 concludes.

2. PREVIOUS LITERATURE

2.1. Literature on financial reporting in transitional Eastern European countries

The literature on financial reporting in transitional countries from Eastern Europe is quite limited, but as the starting point we can point out the 1995 special issue of European Accounting Review-EAR. In this EAR issue, authors analyze the basic financial reporting regulation in the following Eastern European transitional countries:

- Estonia, Latvia and Lithuania (Bailey et al., 1995)
- Czech Republic (Schroll, 1995)
- Hungary (Borros et al., 1995)
- Romania (Dutia, 1995)
- Slovenia (Garrod and Turk, 1995).

The mentioned papers focus on the accounting regulation during the time of the socialist system economy and developments after the fall of the Berlin wall. The main focus was on the presentation of new accounting regulation and description of regulatory framework, accounting standards, bookkeeping, valuation methods for fixed assets, intangibles, inventories, receivables, revenue recognition, depreciation, foreign currency translation, structure of financial statements, etc. In the case of some countries (Czech Republic and Hungary) there is comparison between EU IV and VII Directives and the local accounting rules, which gives an insight in the level of differences. Bailey (1995) suggests that reform of accounting systems of post socialist countries can be initiated only by government in the form of legislation. It can be noticed that papers do not analyze specific reporting requirements for listed companies and there is no empirical research on real implementation of accounting regulations.

Patton and Zelenka (1997) analyzed voluntary disclosure practices in the Czech Republic. The results of their research provide insights into Czech management's choices concerning financial reporting in the period just following the major changes in the Accounting Law. The results show that in the period after adopting the new Accounting Law in 1993 there was a big variety in the annual reports of the observed companies and that firms' choice of auditor and the number of employees were related to the extent of disclosure in annual reports.

Development of accounting and audit in Romania was presented in the paper of King et al. (2001). The results of their research indicate that in the observed period there was partial enactment of the IV EU Directive, no enactment of VII and VIII Directives and partial enactment of some of the measurement provisions of the IAS. The results also indicated that at that time there was general non-enactment of the IAS disclosure requirements. Daniel et al. (2001) present development and role of accounting and auditing in Slovakia in the period of 1945-2001. Slovakia, as a transition country, faced rapid and fundamental economic and social changes. Research revealed that accounting law in Slovakia was based on IV and VII EU Directives and on international accounting standards.

2.2. Literature on de jure and de facto harmonization of financial reporting

Since in the current paper we are conducting the study on the level of financial reporting harmonization among selected transitional countries and EU it is necessary to get an insight into harmonization stream of literature. Scientific papers find the topic of financial reporting harmonization to be an interesting issue, especially in EU countries. Tay and Parker (1990) define harmonization as a process of movement from diversity towards harmony of accounting methods. According to Tay and Parker harmonization can be analyzed in two ways, as de jure harmonization and de facto harmonization. De jure or formal harmonization refers to harmonization of accounting regulation (laws or/and accounting standards). De facto or actual harmonization refers to harmonization in the actual practice of companies. The two types of harmonization are interrelated since we can expect that formal harmonization should increase actual harmonization.

Rahman et al. (2002) in case of Australia and New Zealand find that formal harmonization, together with other firm specific factors (industry, size, ownership concentration, decentralization and Big 6 auditor) influence the actual harmonization. An interesting research on the issue of de facto harmonization of financial accounting in Europe was done by Canibano and Mora (2000). The main finding was indication that the sampled European multinational companies by the end of 1980ies were involved in de facto harmonization, which happened independently from the formal harmonization in accounting standards. The authors also point out that the existence of de facto harmonization creates pressure for formal, i.e. de jure harmonization.

When we talk about de facto harmonization of financial reporting scientific literature suggests that authors often use specific kind of index. H index promoted by Van der Tas (1988) implies that comparability increases when choice of accounting methods among companies become concentrated on one or few alternatives. C index is also used by Van der Tas (1988), but this index can take into the consideration multiple reporting and additional data from the notes regarding use of accounting methods. Tay and Parker (1990) as a possible

methodology for de facto harmonization suggest comparison of observed distribution of companies among different methods with random or expected distribution. Authors also suggest that significant differences among distributions could be measured by the chi-square test.

Canibano and Mora (2000) propose bootstrapping of C index in order to measure significance of the change in its value. It is noticeable that de facto harmonization studies are conducted on company level and researchers use annual reports, extract data, use previously described indexes (or alternative techniques) in order to draw conclusion on the observed harmonization level, or change in the level of harmonization. An excellent early paper on measurement of harmony between different countries is given by Rahman et al. (1996). Authors define methodology for measurement of de jure harmonization on the basis of accounting standards, legislative and listing rules in Australia and New Zealand.

As an example of early de jure harmonization comparison among two countries we can point out the paper of Garrod and Sieringhaus (1995). The authors analyze the issue of leased assets and compare the UK accounting standard (SSAP 21) and German regulation (Code of Commercial Law). Larson and Street (2004) analyze convergence of 17 European countries with IFRS harmonization in the light of 2002 EU decision that all listed companies from member countries must use IFRS in consolidated accounts. Study confirmed the existence of a “two-standard” system in financial reporting in many sampled European countries since they require IFRS only for consolidated accounts of listed companies, while non listed companies and/or individual accounts are based on the national GAAP.

3. FINANCIAL REPORTING REGULATION FOR THE LISTED COMPANIES IN EU

The basis for accounting and financial reporting in EU is given by Fourth and Seventh Directives. IFRS implementation is regulated by the so called IAS Regulation from 2002. IAS regulation is especially important for the segment of listed companies in EU, which in all member states must apply IFRS for the consolidated accounts. Since we are analyzing financial reporting for listed companies an important element of EU regulation in this segment is Transparency Directive.

3.1. Fourth Directive

Fourth Council Directive 78/660/EEC¹ of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies, regulates accounting issues related to companies. Fourth Directive is the oldest

¹ OJ L 222, 14.8.1978., pp. 1-31.

directive in the accounting area. It was adopted in 1978, and soon after in 1983 Second Directive in accounting area followed - Seventh Council Directive of 13 June 1983 based on the Article 54 (3) (g) of the Treaty on consolidated accounts. Fourth Directive sets the obligation for the companies of persons, as well for the companies of capital (Article 1). All the companies in different member states are mentioned that are supposed to make annual accounts. The Fourth Directive prescribes that the annual accounts shall comprise the balance sheet, the profit and loss account and the notes on the accounts.

The balance sheet and the profit and loss account are detailed prescribed in Articles 8, 9 and 10 of the Directive. For the presentation of the balance sheet, the Member States shall prescribe one or both of the layouts prescribed by Articles 9 and 10 of the Directive. If a Member State prescribes both, it may allow companies to choose between them. For the presentation of the profit and loss account, the Member States shall prescribe one or more of the layouts provided for in Articles 23 to 26.

Content of annual report is defined in Article 46. The annual report shall include at least a fair review of the development and performance of the company's business and of its position, together with a description of the principal risks and uncertainties that it faces. The review shall be a balanced and comprehensive analysis of the development and performance of the company's business and of its position, consistent with the size and complexity of the business. To the extent necessary for an understanding of the company's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matter. In providing its analysis, the annual report shall, where appropriate, include references to and additional explanations of amounts reported in the annual accounts. According to the Article 47 a company whose securities are admitted to trading on a regulated market shall include a corporate governance statement in its annual report.

3.2. Seventh Directive

Seventh Council Directive 83/349/EEC² of 13 June 1983 based on the Article 54 (3) (g) of the Treaty on consolidated accounts, was adopted as an "addition" of the harmonization of the accounting Law. It prescribes preparation, publishing and auditing of consolidated annual accounts representing special accounting reports which contain data on financial position, business result and changes of financial position of all associated companies, considering that companies mutually consolidated in one of presumed manners, are treated in a special way. For consolidated companies, consolidated accounts contain

² OJ L 193, 18. 7. 1983.

accounting information as it is a case with just one company regardless legal limitations between consolidated companies. By the Seventh Directive and all its amendments (closing with Directive 2006/46/EZ) on annual and consolidated company reports, and by the Thirteenth Directive on takeover bids (Directive 2004/25/EZ) matter of consolidated companies is being indirectly harmonized. Directive's provisions prescribe conditions for preparing the consolidated accounts. The obligation of preparation of consolidated accounts concerns capital companies.

Consolidated accounts shall comprise the consolidated balance sheet, the consolidated profit-and-loss account and the notes on the accounts. These documents shall constitute a composite whole. Consolidated accounts shall be drawn up clearly and in accordance with this Directive. Consolidated accounts shall give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included there in taken as a whole. Consolidated accounts shall show the assets, liabilities, financial positions and profits or losses of the undertakings included in a consolidation as if the latter were a single undertaking. In particular:

- Debts and claims between the undertakings included in a consolidation shall be eliminated from the consolidated accounts.
- Income and expenditure relating to transactions between the undertakings included in a consolidation shall be eliminated from the consolidated accounts.
- Where profits and losses resulting from transactions between the undertakings included in a consolidation are included in the book values of assets, they shall be eliminated from the consolidated accounts.

The consolidated annual report shall include a fair review of the development and performance of the business and of the position of the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face. The review shall be a balanced and comprehensive analysis of the development and performance of the business and of the position of the undertakings included in the consolidation taken as a whole, consistent with the size and complexity of the business.

3.3. Implementation of IFRS in EU

Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of International Accounting Standards³ – (The IAS Regulation) requires for all companies whose securities are traded at organized market to prepare their consolidated accounts from 2005

³ OJ L 243, 11. 09. 2002.

in accordance with IAS/IFRS. Banks and security companies are included in this group of companies. Consolidated financial accounts should be prepared with accomplishment of strict rules implemented by IAS/IFRS. The IAS Regulation entered into force on 22 June 2002. It ensures that companies, by which securities have been traded on the regulated stock market since 1 January 2005, will prepare its consolidated accounts in accordance with the International Financial Report Standards (IAS/IFRS). Member States may allow or demand of companies to apply the IFRS system during creation of annual accounts as well, that is, to apply the IFRS in companies by which securities have not been traded on the regulated market. In order to ensure the effective application the IFRS should give a fair view of the financial position of the company.

3.4. Transparency Directive

Directive 2004/109/EC⁴ of the European Parliament and of the Council of 15 December 2004 on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (also known as Transparency directive) regulates periodic, on-going and ad hoc reporting obligations for the issuers of the securities that are traded at securities market. The issuer should make public annual financial reports, half-yearly financial reports and interim management statements.

Directive has been adopted by the European Parliament and Council on 15 December 2004. The goal of Directive is to increase the availability of data to investors on regulated market of securities, in order to ensure their accession to the regulated market based on better acquainting with the company condition. By applying the Directive, investors are provided with interim statements of management entities for companies not being obliged to disclose quarterly and half-yearly financial reports. Furthermore, all companies should ensure annual financial reports within four months upon the end of financial year.

Importance of financial reporting is recognized in the directive since Articles 4 and 5 regulate annual and semi-annual financial reporting. Thus, Article 4 defines that issuer must make public annual financial report at least four month after year end and it must be publicly available for five years. Annual financial report shall comprise the following three elements:

1. The audited financial statements
2. The management report
3. The statement made by issuer's responsible persons which state that the financial statements are prepared in accordance with the applicable set of accounting standards and that they give true and fair view of assets,

⁴ OJ L 390/38, 31. 12. 2004.

liabilities, financial position and profit or loss of the issuer and its undertakings included in the consolidation.

If issuer has to prepare the consolidated statements, the audited financial statements must include consolidated statements prepared on the basis of IAS/IFRS and parent company statements prepared on the basis of the national law of the member state where the issuer is incorporated. If issuer is not obliged to prepare consolidated statements the audited statements shall comprise statements prepared on the basis of the national law of the member state where the issuer is incorporated.

The article 5 of the transparency directive deals with half-year reports. The issuer is obliged to prepare half-year reports for the first six month and make it publicly available not later than two months after the relevant period. The half-year reports shall be publicly available for the five years and they shall comprise:

1. The condensed set of financial statements
2. An interim management report
3. The statement made by issuers responsible persons which state that the condensed financial statements are prepared in accordance with the applicable set of accounting standards and that they give true and fair view of assets, liabilities, financial position and profit or loss of the issuer and its undertakings included in the consolidation.

Interim management statements are defined in Article 6 of the Directive. An issuer whose shares are admitted to trading on a regulated market shall make public a statement by its management during the first six-month period of the financial year and another statement by its management during the second six-month period of the financial year. Such statement shall be made in a period between ten weeks after the beginning and six weeks before the end of the relevant six-month period. It shall contain information covering the period between the beginning of the relevant six-month period and the date of publication of the statement.

4. FINANCIAL REPORTING REGULATION FOR THE LISTED COMPANIES IN SELECTED EASTERN EUROPEAN COUNTRIES

4.1. Financial reporting regulation for the listed companies in Slovenia

Since 1993, financial accounting and reporting in Slovenia has been regulated by the The Companies Act. Slovenia developed Slovene Accounting Standards – SASs and since 1993, 32 standards have been adopted (Garrod and Turk, 1995). The outline for financial reporting was comparable with the

framework of the IASB and included IV and VII directives of the EU. During the time of usage of SASs for all companies, including the listed companies as the main area of the differences in comparison with IFRS World bank study pointed out the following: capitalization of foreign exchange losses, a broader definition of extraordinary items, capitalization of start-up costs, recording of treasury stock as investment and recording of long-term receivables as part of current assets (World Bank, 2004a).

The latest version of The Companies Act is harmonized with consolidated IV and VII EU Directives and for example deals with issues like⁵: consolidated accounting report and business report (article 56), auditing (article 57), publication of annual report (article 58), structure of annual report (article 60) and structure of business report (article 70). Obligation of auditing in Slovenia is defined by the The Companies Act (article 57) for the following types of companies: large companies, middle sized companies and all listed companies. Auditing is also defined in many details by the Auditing Act⁶, but the most important provision is usage of International Standards of Auditing. Since in 2004 Slovenia has become EU member, significant changes in the financial reporting regulation were undertaken. According to the regulation in the EU, that is, all Slovene companies with securities that are traded on the EU countries capital markets must apply IFRS (Koželj, 2006). Financial reporting for listed companies in Slovenia is currently regulated by Capital Markets Act⁷ which is harmonized with EU regulative. Besides the Capital Markets Act there is Regulation on disclosure of regulated information, which requires publishing annual business report, auditor report, semi-annual business report and quarterly business reports.

Visit to the website⁸ of Slovene SEC reveals that the website does not include any kind of register of financial reports of listed companies. Namely, practice is that companies listed on the Ljubljana stock exchange have to supply their reports directly to the bourse, which publishes them on the Internet information service called SEOnet⁹. Research of the Website SEOnet lead us to the conclusion that the listed companies publish full annual reports, but there is no unique format. Annual reports are pretty informative but companies use their own design of annual report with many pictures and promotion material about company. Financial statements are presented in accordance with IFRS, with very comprehensive notes, accompanied with auditor report, managerial discussion, supervisory board report, risk analysis, plans for the next business year, etc. Besides annual reports companies provide semi annual and quarterly financial and business reports. From the viewpoint of foreign investors it is important to point out that all reports are presented in Slovene and English.

⁵ http://www.mg.gov.si/fileadmin/mg.gov.si/pageuploads/predpisi/ZGD-1_prevod_AN.pdf

⁶ Official Gazette, No. 65/2008.

⁷ Official Gazette, No. 40/2009.

⁸ <http://www.a-tvp.si/>

⁹ www.seonet.ljse.si/menu/default.asp

4.2. Financial reporting regulation for the listed companies in Croatia

The first Accounting Act¹⁰ in Croatia after its independence was endorsed in 1992. This Act prescribed the minimum items of the balance sheet and the profit and loss account on the basis of IV EU Directive. The latest version of the Accounting Act¹¹ was endorsed in 2007, while it came into force in January 2009. The most important element of the Accounting Act is a provision, which requires application of IAS/IFRS. In the period 1993 - 2005 all Croatian companies were obliged to use IASs, while the latest version of the Accounting Act has brought a significant change, since small and mid-sized non-listed companies must use Croatian Financial Reporting Standards¹². The Companies Act¹³ has some financial reporting requirements for companies of capital since it requires presentation of annual business report and consolidated annual business report to the supervisory board and general assembly.

Regulation of disclosure for the listed companies is under the jurisdiction of Hanfa¹⁴, the regulator which organizes and supervises the functioning of the capital markets in Croatia. If a company was issuing shares, according to the old version of Securities Act¹⁵ it was obliged to prepare a prospectus for the Hanfa and investors. Requirements for the prospectus were at the very high level in the old regulation, while the latest regulation is even more comprehensive and harmonized with EU requirements. The major shortcoming in Croatian regulation of financial reporting for the listed companies was the fact that until 2009, i.e. in period 1993-2008 there was no obligation to produce and disclose full annual, semiannual and quarterly reports. Namely, due to the Regulation of quarterly reporting¹⁶ until the end of 2008 listed companies had to provide Hanfa and stock exchange with only four financial statements: balance sheet, profit and loss statement, cash flow statement and statement on shareholders' equity changes. Required financial statements were published in the so called Public Information Library, which was not freely available to the investors on the Internet¹⁷ until 2000.

Apart from the four financial reports, the listed companies also had to supply some additional information such as: list of subsidiaries, the amount of dividends paid out, the number of shares, the market prices of shares, a list of the ten biggest shareholders, liquidity, business combinations, litigation under way, and changes in the accounting policy. Financial data for Hanfa by the end of 2008

¹⁰ Official Gazette, No. 92/1992.

¹¹ Official Gazette, No. 109/2007.

¹² This standards are based on IFRS, but have smaller scope and some differences in comparison with IFRS.

¹³ Official Gazette, 140/2009-137/2008.

¹⁴ www.hanfa.hr

¹⁵ Official Gazette, No. 84/2002.

¹⁶ Official Gazette, No. 118/2003.

¹⁷ <http://jik.hanfa.hr/jik/default.asp>

was filled in defined excel forms and it is important to point out that forms of balance sheet and P&L statement followed IV EU Directive and were not completely IFRS based. Cash flow statement was defined by indirect method as described by IAS 7. All financial statements published by the end of 2008 on the website of Hanfa and Zagreb Stock Exchange are presented only in Croatian language.

The most important shortcoming of regulation until the end of 2008 was in the failure to require the publication of notes and accounting policies (IAS 1), details about business segments (IAS 14), related parties transactions (IAS 24), managerial compensations (IAS 24), auditor report, management analysis of operations and expected trends in the future. Also, it is important to point out that some companies from the Zagreb Stock Exchange¹⁸ did not provide Hanfa and investors with consolidated financial statements but only parent company statements. World Bank experts analyzed accounting and auditing practice in Croatia in 2002 and concluded that the financial reporting framework is investors oriented, but the most important practical issue is nonexistence of official institution for supervision of IFRS application (World Bank, 2002). In new research in 2007 the World Bank experts noted the introduction of important institutional changes in the implementation of IFRS in Croatia. However, World Bank experts recommended further capacity building to monitor compliance with the accounting requirements (World Bank, 2007).

A lot of new requirements in reporting and transparency of listed companies in Croatia is bringing a first Capital Markets Act¹⁹ endorsed in 2007. The Act and additional regulations resulted with higher requirements for disclosure of useful information to regulator Hanfa and investors. The issue of transparency of listed companies in the Capital Markets Act is primarily described through the Chapter 2, called "Reports of the issuer". In accordance with Paragraph 401 listed companies must produce annual, semi-annual and quarterly financial statements, annual, semi-annual and quarterly business reports and publish them to the public in an appropriate manner. All reports published after January 2009 must be available to the public for at least 5 years. It is important to notice that new regulation requires annual, semi-annual and quarterly business reports, all financial statements and auditor report, which represents a large scope of useful information for analysts and investors that was unavailable during the period 1993-2008. Empirical insight in the Zagreb Stock Exchange website reveals that periodical financial statements published during the 2009 are presented in Croatian and English.

Auditing of annual report in Croatia is regulated by Auditing Act²⁰, which requires auditing of annual and consolidated annual report for all joint stock companies (listed or unlisted), limited liability companies with sales of

¹⁸ www.zse.hr

¹⁹ Official Gazette, No. 109/2007.

²⁰ Official Gazette, No. 146/2005.

more than 4.1 million €, banks, insurance companies, investment funds, pension funds and subsidiaries if parent company financial statements must be audited. Auditing in Croatia is based on the International Standards on Auditing.

4.3. Financial reporting regulation for the listed companies in Bosnia & Herzegovina

Bosnia & Herzegovina after the Dayton Agreement consists of two separate entities, Federation of Bosnia & Herzegovina and Serbian Republic. Two entities have separated capital markets and regulation. Due to such organization of Bosnia & Herzegovina reporting regulation and practice of listed companies is described separately for the two entities.

4.3.1. Financial reporting regulation for the listed companies in Federation of Bosnia & Herzegovina – FB&H

Regulatory basis for accounting and financial reporting in FB&H is provided by the Accounting Act, which requires usage of IFRS for all type of companies²¹. The Accounting Act (Article 3) for the purpose of auditing requires International Standards on Auditing. Empirical research of the World Bank experts in FB&H during 2003 revealed that although companies stated that they were preparing financial statements according to IFRS, none of 15 sampled companies prepared full IFRS-based statements. Also, 5 companies did not prepare notes to financial statements, 4 companies did not prepare auditor report, and none of the sampled companies prepared consolidated statements, segment reports or disclosed related parties transactions (World Bank, 2004). Another important conclusion from the World Bank ROSC was that majority of listed companies in FB&H do not publish financial statements on Securities Commission website, although it is mandatory according to the Securities Act.

Securities Act²² in the Article 237 requires that listed company from FB&H publish the following information: semi annual and annual report, report on important business events, prospectus for every new issued security and report on results of each initial public offer. More details on financial reporting regulation for listed companies is given by Regulation of disclosure of information and reporting.²³ The mentioned Regulation requires that listed companies provide to Securities Commission: quarterly report (only for the official market), semi-annual report, annual report accompanied with auditor opinion and report on important business events.

All the three reports must be published in at least one daily paper published in FB&H and on its own website (or at company headquarters). Reports also must be provided to the Securities Commission in the electronic

²¹ Official Gazette, No. 32/2005.

²² Official Gazette, No. 85/2008.

²³ Official Gazette, No. 37/2009.

form and published at the website²⁴ of the Commission and Sarajevo Stock Exchange²⁵. Analysis of defined filling form for the annual report resulted with the finding that companies must publish only 4 financial statements: balance sheet based on IV Directive EU, P&L statement - based on IAS 1, cash flow statement – based on the indirect method from IAS 7 and statement of changes of owner's equity. Here must be pointed out that listed companies from FB&H currently are not required to publish full annual report, but only selected financial statements in excel format and Bosnian language only.

4.3.2. Financial reporting regulation for the listed companies in Serbian Republic

Financial reporting in Serbian Republic is primarily regulated by the Accounting and Auditing Act²⁶, which requires use of IFRS for all companies. Financial reporting for listed companies is additionally regulated by Securities Act²⁷ and Regulation of disclosure of information by public listed companies²⁸. Regulation requires listed companies to publish: annual financial report, semi-annual financial report, auditor report and report on important business events.

Serbian Republic, like FB&H currently is not requiring from listed companies to publish full annual report, but only selected four financial statements. Banja Luka Stock Exchange²⁹ collects data from the listed companies and publishes them on the website in excel format, in Serbian and English language. Analysis of defined form for the annual report resulted with the finding that companies must publish only 4 financial statements: balance sheet based on IV Directive EU, P&L statement - based on IAS 1, cash flow statement – based on the direct method from IAS 7 and statement of changes of owners' equity. Here it must also be noticed that insight into the website of Banja Luka Stock Exchange reveals that companies from Serbian Republic publish the so called “auditor report”. This report besides auditor opinion usually includes financial statements accompanied by notes. Notes present basic accounting policies and give some selected details about elements of financial statements.

4.4. Financial reporting regulation for the listed companies in Serbia

Accounting and Auditing Act³⁰ in Serbia requires that all companies (listed and non-listed) use IFRS. Auditing must be done in accordance with International Standards on Auditing. Auditing is obligatory for the following

²⁴ <http://www.komvp.gov.ba/>

²⁵ <http://www.sase.ba/desktopdefault.aspx?tabid=1>

²⁶ Official Gazette, No. 67/2005.

²⁷ Official Gazette, No. 92/2006.

²⁸ Official Gazette, No. 89/2007.

²⁹ <http://www.blberza.com>

³⁰ <http://www.poreskisavetnik.com/zakon/oracunovodstvu.html>

types of companies: large and middle sized companies, parent companies that produce consolidated statements, and all listed companies. Financial reporting of listed companies is additionally regulated by the Securities Act³¹ and Regulation of reporting for public companies.³²

Securities Act in Article 65 requires that public companies provide the Securities Commission with the following information: adopted annual financial report, auditor report and semi-annual financial report. All previously described reports in abridged form must be published in at least one daily paper which is distributed in whole territory of Serbia. Also in the daily paper must be information about changes in legal and financial status of company and about location where full annual financial and auditor report is available.

Supervision of financial reporting of public listed companies is under jurisdiction of Securities Commission. More details on the disclosure of listed companies is given in Regulation of reporting for public companies, which in Article 3 reveals that annual financial report includes only 4 financial statements: Balance sheet, P&L statement, Cash flow statement and Statement of changes of owners equity. After the visit to the website of the Serbian Securities Commission³³ we have discovered that there is no Register on financial reports for the listed companies. Belgrade Stock Exchange³⁴ according to the regulation has an obligation to publish abridged annual and semi-annual financial reports. Analysis of the website of Belgrade Stock Exchange revealed that companies publish as required abridged versions of annual and semi-annual financial reports in excel form, Serbian language and Cyrillic alphabet. Besides the abridged version of financial reports there is also more comprehensive format for four financial statements, without notes. These statements are presented in pdf format, Serbian language and Latin alphabet. It is noticeable that listed companies at the Belgrade Stock Exchange besides financial statements publish the auditor report. English version of the website reveals also an English version of reports for some companies.

4.5. Financial reporting regulation for the listed companies in Montenegro

Financial reporting in Montenegro is regulated by Accounting and Auditing Act³⁵, which has the latest version endorsed in 2008. The most important provision of the Accounting & Auditing Act is article 3, which requires use of IFRS standards, which are translated into the local language. Article 3b specifically points out that companies which exercise control over other companies must produce and publish IFRS based consolidated statements.

³¹ Official Gazette, No. 47/2006.

³² Official Gazette, No. 37/2009.

³³ http://www.sec.gov.rs/index.php?option=com_frontpage&Itemid=1

³⁴ <http://www.belex.rs>

³⁵ Official Gazette, No. 80/2008.

Auditing of financial statements is based on International Standards on Auditing and it is required for listed companies, large companies, large groups, banks, insurance companies and all financial institutions that participate in the capital markets. The latest version of the Accounting & Auditing Act from 2008 also introduced the obligation that all large companies (listed and unlisted) must establish a three member auditing committee, whose members are elected by general assembly. According to the article 16h of the Act all large companies also must have internal auditor.

In the Montenegro financial reporting requirements for the listed companies are incorporated into the Securities Act³⁶ and Rules for financial reporting of issuers³⁷. Securities Act is not very detailed concerning the issue of financial reporting for listed companies, since it only in the Article 27 requires that all issuers must provide annual report and other information required by the Securities Commission. Securities Commission³⁸ in Montenegro has endorsed new Rules for financial reporting of issuers which apply since January 2009. The Rules apply to financial reports of listed companies, consolidated financial reports when an issuer has subsidiaries and any other subjects who issue financial instruments at capital markets in Montenegro. It is important to point out that Securities Commission is not responsible for accuracy of information published in the financial reports.

Article 3 of the Rules requires that listed company must produce statements for the first, second and third quarter, annual report and auditor report. All reports are filled by listed companies in prescribed form and must be sent to the Securities Commission in the hard copy and electronic form. Banks and insurance companies have separate filling forms in comparison with other listed companies. Quarterly reports must be produced and published within 30 days after the quarter-end, while the annual and auditor reports must be published within 120 days after the end of reporting period. Securities Commission is publishing received reports on its website within 5 days after report was received from the issuer. All required financial reports (quarterly and annual) follow the same filling form and incorporate the following elements: basic data, balance sheet, P&L statement, cash flow statement, statement of changes of owner's equity, explications and comments of Board of directors, report on the important events and notes to financial statements.

After the empirical insight on the website of Securities Commission³⁹ in Montenegro it was discovered that many companies listed on the website do not provide financial reports to the Securities Commission. Some companies provide only old annual reports, for example annual reports for 2006 and 2007, while

³⁶ Official Gazette, No. 28/2006.

³⁷ Available at:

<http://www.scmn.me/fajlovi/Pravila%20o%20sadrzaju,%20rokovima%20i%20nacinu%20objavljenja%20finansijskih%20izvjestaja%20emitenata%20hartija%20od%20vrijednosti.doc>

³⁸ <http://www.scmn.me>

³⁹ <http://www.scmn.me/index.php?sadrzaj=96>

there are no annual reports for 2008, 2009 or quarterly reports. Only some companies present all the required information, quarterly and annual statements. Statements on the website of Securities Commission are presented in the prescribed excel form, while the auditor report is given in the pdf form.

Regulation analysis and empirical research on the website of Securities Commission indicates that the most important shortcoming is the fact that notes to financial statements are not obligatory element of annual or quarterly financial reports. Namely, regulation under annual report implies only four financial statements without notes. It seems that current practice of listed companies in Montenegro is that notes are published only as an element of auditor report. Empirical research reveals that auditor report includes: auditor opinion about financial statements and financial statements including notes. It is important to point out that notes are pretty general and short giving limited information to user about accounting policies and details that can not be found in the financial statements.

Empirical findings indicate that listed companies from Montenegro are not required to produce and present full annual report since we could not find: managerial discussion and analysis of financial results, analysis of major business risks, analysis of the market and competition, segment information, related parties transactions, etc. All financial statements information is presented in the local language, while the auditor report is given in English. Currently two bourses operate in Montenegro, NEX Montenegro⁴⁰ and Montenegroberza⁴¹. After the detailed insight into the websites of the mentioned bourses it was discovered that listed companies present the same scope of information as required and published by Securities Commission.

4.6. Financial reporting regulation for the listed companies in the Former Yugoslav Republic of Macedonia – FYR Macedonia

Regulatory platform for the accounting and financial reporting in FYR Macedonia is given by The Companies Act.⁴² The Companies Act classifies companies into four groups: large, medium sized, small and micro. IFRS are financial reporting platform for large and medium sized companies, listed companies, banks, insurance companies and subsidiaries of previously mentioned companies. Auditing of financial reports is regulated by Auditing Act⁴³, which requires usage of International Standards of Auditing. Audit of financial reports is obligatory for all listed companies.

World-bank experts have analyzed accounting and auditing in FYR Macedonia and discovered that companies are obliged to use IFRS, but the major

⁴⁰ <http://www.nex.co.me/>

⁴¹ <http://www.montenegroberza.com/>

⁴² Official Gazette, No. 28/2004.

⁴³ Official Gazette, No. 31/2001.

shortcoming was the fact that at the time of analysis in 2003, only version of IAS from 1999 was translated into the Macedonian language. ROSC report also point out practice of presenting only abridged form of financial statements by the listed companies, i.e. financial reports are not IFRS based although IFRS is the financial reporting platform. The latest data based on research of PricewaterhouseCoopers conducted in 2008 and 2009 indicate that companies from FYR Macedonia use 2003 version of IFRS. Foreign companies which are listed on capital markets in Montenegro or have unlisted subsidiaries fall into the same set of reporting rules and use IFRS (PricewaterhouseCoopers, 2009).

Additional reporting requirements apply for the listed companies as defined by Securities act.⁴⁴ The Act in the Chapter VI deals with the issue of financial reporting and transparency of the listed companies. Article 153 of the Act defines that Securities Commission⁴⁵ must establish and maintain Registry of Reporting Companies. A listed company must submit to the Commission annual report, semi-annual report and quarterly reports. Annual report must be published no later than 4 months after the end of the calendar year. Annual report includes the following elements: financial statements, auditor opinion, discussion and analysis of business results, information on members of management and supervisory board, compensation arrangements, dividends policy, etc.

Annual report with auditor opinion summary must be published in one daily newspaper, while the full annual report must be available in company headquarters. Listed company must also produce and publish semi-annual report for the first six month of the business year no later than 45 days after the 6 month period. This report must incorporate non-audited financial statements accompanied with explanatory statement about companies' business activities. Quarterly statements must be produced for the first and third quarter, no later than 30 day after the quarter end. The minimum of information includes consolidated abridged P&L statement and explanatory statement. On the basis of current regulation on quarterly reporting we must conclude that quarterly reporting is not following IFRS approach. Listed company must provide electronic format of all previously described reports to Securities Commission and Stock Exchange - Macedonian Stock Exchange⁴⁶.

A local expert in the paper from 2004 points out that Securities Commission and Stock Exchange do not review financial statements and effective enforcement of IFRS is left only for auditors (Hadži Vasileva-Markovska, 2004:6). Available literature on the regulation of financial reporting does not reveal that The Companies Act, Securities Act or any other regulation directly requires consolidation of financial reports for listed companies.

⁴⁴ <http://test.sec.gov.mk/Dokumenti/laws/hv/Finalna%20angliska%20verzija%20na%20ZHV%20.doc>

⁴⁵ <http://test.sec.gov.mk/index.htm>

⁴⁶ <http://www.mse.com.mk/>

Empirical insight into the Register of financial reports⁴⁷ on the website of the Securities Commission reveals that reports are presented in pdf form, Cyrillic alphabet and in Macedonian language. Abridged version of quarterly P&L statement includes extraordinary revenues and expenses and therefore it is not full IFRS based. Annual report practiced by regulative in FYR Macedonia is not classical annual report, but it consists of only four separate pdf documents for the four financial statements without notes. Besides the annual report for the each listed company in the Register investors can find auditor report. This report is also presented in pdf form, Cyrillic alphabet and in Macedonian language. Analysis of the website also reveals that all listed companies do not publish all required reports, since in some cases we could not find annual report, in some cases auditor report, while in some cases there was none of required reports for the 2008.

Besides the website of the Register of financial reports maintained by Securities Commission in FYR Macedonia a new information service of Macedonian Stock Exchange called SEI-Net News⁴⁸ is established. Here it must be pointed out that annual reports published on the SEI-Net News are more comprehensive and include all financial statements including notes and auditor opinion. But there is no managerial analysis of results, risk analysis, etc. All information is available in Macedonian language, while some selected information is available in English and only for the highest quotation. It is interesting to point out that English versions of the 2008 annual financial reports are available for three listed companies.

5. COMPARATIVE ANALYSIS OF FINANCIAL REPORTING REGULATION IN THE SELECTED EASTERN EUROPEAN COUNTRIES AND EU

5.1. Comparative analysis of financial reporting regulation

Analysis from the Section 4 has revealed some basic characteristics of accounting and auditing in selected Eastern European transitional countries. On the basis of analyzed regulation we can conclude that the sampled countries have different laws which regulate accounting (Table 1). Namely, in some countries (Slovenia and Macedonia) regulation is achieved through the Companies Act, some countries use Accounting and Auditing Act (Serbia, Bosnia & Herzegovina and Montenegro), while some countries use both laws (Croatia). Common in all countries is usage of IFRS for the segment of listed companies and concerning the current EU rules here we can conclude that regulation is harmonized. Also, all the sampled countries require International Standards of Auditing for the auditing of financial statements.

⁴⁷<http://test.sec.gov.mk/mak/registar.htm>

⁴⁸<http://www.seinet.com.mk/default.aspx>

Consolidation of financial statements is a very important accounting issue and in the EU it is regulated by VII Directive for non listed companies, while listed companies must follow IFRS rules (IAS 27, IAS 28, and IAS 31). Concerning the observed consolidation regulation in the selected six countries we have identified two groups of countries, one group (Slovenia, Croatia, Serbia and Montenegro) have consolidation rules in the regulation and in accounting standards. The second group of countries relies only on accounting standards (Bosnia & Herzegovina and FYR Macedonia) and specific consolidation rules are not included into the regulation through the laws.

Regulation research in the selected countries has revealed that all sampled countries have additional regulation for the segment of listed companies (Table 2). Regulation at the EU level for this segment of companies is primarily given through the so called Transparency Directive. Empirical analysis of the relevant regulation in selected countries reveals that majority of countries regulate financial reporting of listed companies through the Securities Act, while Slovenia and Croatia use the Capital Markets Act. These regulations mainly focus on annual reporting, while in Slovenia and Croatia there are provisions for semi annual and quarterly reporting. All countries also have separate regulation which defines details on periodical reporting.

A very important issue in reporting of listed companies is the annual report, which gives financial position and results for the business year. The analysis of regulation reveals that regulation in only three countries requires annual report (Slovenia, Croatia and FYR Macedonia). In other countries (Serbia, Bosnia & Herzegovina and Montenegro) listed companies are not obliged to produce full annual report. Namely, identified filling forms on web sites of commissions or/and bourses show that companies must provide only four financial statements without notes (although obligatory according to IAS 1) and other elements of annual report. Croatia had the similar regulation until the end of 2008, when new requirements came into force requiring full annual report from 2009. Here we can notice that two candidate countries (Croatia and FYR Macedonia) have more harmonized regulation with EU requirements. Slovenia as the member state implements all EU requirements. In the case of Croatia we can notice that financial reporting requirements for listed companies in the period 1993-2008 were similar to the regulation in Serbia, Bosnia & Herzegovina and Montenegro, since there was no requirement to produce full annual report. Now, when negotiations with the EU are in the mature stage, Croatia as the candidate country is implementing EU requirements into the national regulation, which implies increased quality of financial reporting regulation.

An important element of financial reporting is the auditor report and modern practice requires that annual financial statements are accompanied with auditor report, because in that case investors can check the auditor opinion on presented reports. Cross country regulation analysis reveals that auditing of financial statements is obligatory for listed companies in all the sampled countries. Also, almost all the countries require that listed companies disclose an

auditor report or opinion. Only Federation B&H in Bosnia & Herzegovina requires companies to disclose the type of auditor opinion (qualified opinion, unqualified opinion, adverse opinion or disclaimer of opinion), but not the full auditor opinion or report. In some countries the auditor report includes overview of accounting policies and notes.

According to the EU Transparency Directive listed companies must provide a semi annual report, which includes all financial statements and management report. In only two countries (Slovenia and Croatia) such provision in regulation can be found, while in all of other countries semi annual reporting requires filling and publishing of four financial statements without notes. There are similar provisions in regulation for quarterly reporting.

The analysis of financial reporting regulation in the selected six countries from the Eastern Europe has revealed that countries have similar financial reporting frameworks for listed companies since all countries use IFRS. But a more detailed insight into the regulation specific for listed companies reporting reveals some significant differences, which are reflected in requirements for publishing full annual report, auditor report, semi annual and quarterly statements. Regulation analysis reveals that financial reporting requirements in Slovenia are completely harmonized with the EU, while the two candidate countries (Croatia and FYR Macedonia) are harmonized with the EU in many elements. Other countries from the region are less harmonized with the EU requirements and their financial reporting requirements are at the lower level. Therefore, in the context of selected countries and ongoing process of the EU enlargement it is quite clear that the stage of EU accession has a direct effect on the harmonization of financial reporting regulation in the selected countries. In the case of Croatia and the cross time analysis of financial reporting regulation conducted here we can conclude that financial reporting requirements are increased with the progress of EU accession negotiations and that listed companies should be more transparent in the future.

Table 1
Comparison of basic characteristics of accounting and auditing regulation in EU and six transitional Eastern European countries

	EU	Slovenia	Croatia	Bosnia and Herzegovina		Serbia	Montenegro	FYR Macedonia
				B&H Federation	Serbian Republic			
Basic accounting and auditing regulation	IV Directive VII Directive IAS regulation	The Companies Act Auditing Act	Accounting Act Auditing Act The Companies Act	Accounting Act Auditing Act	Accounting and auditing Act	Accounting and auditing Act	Accounting and auditing Act	The Companies Act Auditing Act
Required standards for listed companies	IFRS for consolidated accounts	IFRS for consolidated accounts	IFRS for consolidated or individual accounts of listed companies.	IFRS	IFRS	IFRS	IFRS	IFRS
Required standards for non listed SME	IV Directive VII Directive	SAS IFRS option	CFRS IFRS are not an option	IFRS	IFRS	IFRS	IFRS	N.A.
Consolidation regulation	VII Directive IFRS	The Companies Act SAS IFRS	Accounting Act The Companies Act CFRS IFRS	IFRS	IFRS	Accounting Act and auditing Act IFRS	Accounting Act and auditing Act IFRS	IFRS
Required auditing standards	ISA	ISA	ISA	ISA	ISA	ISA	ISA	ISA

Table 2
Comparison of specific reporting requirements for listed companies in EU and six transitional Eastern European countries

	EU	Slovenia	Croatia	Bosnia and Herzegovina		Serbia	Montenegro	FYR Macedonia
				B&H Federation	Serbian Republic			
Additional reporting regulation for listed companies	Transparency directive	Capital Markets Act Decision of presenting of regulated information	Capital Markets Act Decision on the format and content for issuers interim reports	Securities Act Regulation of disclosure of information and reporting	Securities Act Regulation of disclosure of information by public listed companies	Securities Act Regulation of reporting for public companies	Securities Act Rules for reporting of financial issuers	Securities Act
Obligatory auditing of financial statements for listed companies	Yes.	Yes.	Yes.	Yes.	Yes.	Yes.	Yes.	Yes.
Full annual report required by regulation	Yes.	Yes.	No in period 1993-2008. Yes since 2009.	No.	No.	No.	No.	Yes.
Auditor report presentation in/or together with annual report	Yes.	Yes.	No in period 1993-2008 Yes since 2009.	No full report, only type of auditor opinion.	Yes. Auditor report includes financial statements and notes of limited scope.	Yes.	Yes. Auditor report includes financial statements and notes of limited scope.	Yes. Auditor report is part of annual report.
Semi annual report	Yes.	Yes.	In period 1993-2008 only 4 financial statements without notes Yes since 2009.	Only 4 financial statements without notes.	Only 4 financial statements without notes.	Only 4 financial statements without notes.	Only 4 financial statements without notes.	Only 4 financial statements without notes.
Quarterly reports	Yes.	Yes.	No, only 4 financial statements without notes. Yes since 2009.	No, only 4 financial statements without notes.	No, only 4 financial statements without notes.	No, only 4 financial statements without notes.	No, only 4 financial statements without notes.	No, only 4 financial statements without notes.

5.2. Comparative analysis of mandatory financial reporting practice

Financial reporting regulation is a very important element in the financial reporting of listed companies, but it is also very important to identify mandatory reporting practice. Although regulation deals with the issues of annual, semi annual, and quarterly reports there are many details that are not solved through the regulation, but are defined with the specific filling forms, which are in the jurisdiction of the capital market regulator. In order to analyze the mandatory financial reporting practice of listed companies we have visited the sites of securities commissions in all six countries.

The first information that we were seeking on the website of all commissions was some kind of register with financial information on listed companies. Practice of publishing financial reports on the commission web site varies, since some countries have such register (Croatia, B&H Federation in Bosnia and Herzegovina, Montenegro and FYR Macedonia). In other countries from the sample commissions do not publish financial information and all information is presented only on the bourse website. All local bourses have registers with financial information on companies, but the presentation format varies (Table 3).

Namely, mandatory financial information in some countries is presented in national language and in English (Slovenia, Croatia, Serbia and FYR Macedonia). In two countries (Bosnia and Herzegovina and Montenegro) financial information is presented only in the national language. Latin alphabet can be found in all stock exchanges, while some countries (Serbia, Serbian Republic in Bosnia and Herzegovina and FYR Macedonia) also use the Cyrillic alphabet. Language and alphabet are very important aspects of financial reporting in the context of globalization and free capital flows. In order to attract foreign investors, regulator or bourse should require that companies publish financial information in Latin alphabet and in English because that will certainly ease financial analysis and reduce transaction costs for foreign investors.

The most comprehensive financial report for a listed company is the annual report. The analysis of regulation from the sampled countries revealed that some countries require full annual report while some countries do not require publishing of full annual report. In order to have a better insight in the published annual reports we have conducted empirical analysis of the commissions and bourses websites (Table 4). Since the annual report is required by regulation only in Slovenia, Croatia (since 2009) and FYR Macedonia, we were not able to make a detailed insight into disclosure practice by calculating disclosure scores. Since reporting requirements for annual report vary we have decided to measure web publishing of some basic elements of annual report: balance sheet, P&L statement, cash flow statement, statement of changes of owner's equity, accounting policies, notes, auditor report, management discussion and analysis, risk analysis, segment information, related parties disclosure, responsibility for financial statements and supervisory board report.

During the empirical analysis of the websites we were focused on documents named annual report and other documents (for example auditor report) that incorporated some elements of classical annual report. As expected, empirical analysis has shown that Slovene companies publish full annual report incorporating all the previously mentioned elements. In Croatia new regulation on annual report came into force in January 2009 and new annual reports were not observable during the time of empirical analysis. On the basis of annual reporting practice until the end of 2008 on the website of Hanfa and Zagreb Stock Exchange, we found only four annual financial statements, but not the full reports. Therefore the new reporting requirements are expected to significantly improve the annual disclosure of listed companies in Croatia and it will be interesting to analyze the effects on investors' behavior and share price volatility.

In B&H Federation in Bosnia and Herzegovina the findings on mandatory annual reporting practices are similar to the Croatian practice in the period 1993-2008. Namely, listed companies must publish only four financial statements, with description of type of auditor opinion. The practice of Serbian Republic in Bosnia and Herzegovina reveals slightly higher mandatory reporting practices since companies publish four financial statements, but in the auditor report investors can find the auditor opinion, accounting policies, notes, and in some cases the related parties disclosure. In Serbia mandatory disclosure of elements of annual report is limited to four financial statements accompanied with the auditor opinion. There are no any other elements of classical annual report. This findings are similar to Croatia (1993-2008) and Federation B&H. The empirical analysis of websites of commission and two bourses in Montenegro has revealed that listed companies publish four financial statements, but in the auditor report investors can find the auditor opinion, basic accounting policies and limited scope notes. Listed companies from FYR Macedonia publish the annual report which includes four financial statements, accounting policies, notes, auditor report, risk analysis and related parties disclosure.

On the basis of the previously described empirical findings we can notice that current financial reporting practice of listed companies in Slovenia is very comprehensive and more advanced in comparison to the other countries from the region. Management discussion and analysis of business results were not found in any country (except Slovenia), which indicates that listed companies are not very transparent towards investors. Also, we could not find that the management presents a statement of responsibility for financial statements. Supervisory boards opinion on business results and financial position for investors were available only in Slovenia.

Table 3
 Comparison of presentation of financial information for listed companies in EU and six transitional Eastern European countries

	EU	Slovenia	Croatia	Bosnia and Herzegovina		Serbia	Montenegro	FYR Macedonia
				Federation B&H	Republic Srpska			
Financial information on issuers is presented on the web site of the Securities Commission	Under jurisdiction of Securities Commission	No.	Yes.	Yes.	No.	No.	Yes.	Yes.
Financial information on issuers is presented on the web site of the bourse.	Under jurisdiction of Securities Commission	Yes.	Yes	Yes.	Yes.	Yes.	Yes.	Yes.
Language	National language for home listing. One foreign language for listing in other EU countries	Slovene. English.	Croatian. English since 2009.	Bosnian.	Serbian. English.	Serbian. English for some companies.	Montenegrin.	Macedonian. English for 3 companies.
Alphabet	Not defined	Latin.	Latin.	Latin.	Cyrillic. Latin.	Cyrillic. Latin.	Latin.	Cyrillic. Latin for 3 companies.
Format	Not defined	PDF	Excel PDF	Excel	Excel PDF	Excel PDF	PDF	PDF. Excel since 2009.

Table 4
 Comparison of elements of annual report empirically observed* on the web sites of Securities Commission and/or bourse in November

	Slovenia	Croatia**	Bosnia and Herzegovina		Serbia	Montenegro	FYR Macedonia
			Federation B&H	Republic Srpska			
Balance sheet	√	√ (2008 reports)	√	√	√	√	√
P&L	√	√ (2008 reports)	√	√	√	√	√
Cash flow statement	√	√ (2008 reports)	√	√	√	√	√
Statement of changes of owners equity	√	√ (2008 reports)	√	√	√	√	√
Accounting policies	√	N.A.	-	√	-	√	√
Notes	√	N.A.	-	√	-	√	√
Auditor report	√	N.A.	Type of opinion	√	√	√	√
Management discussion and analysis	√	N.A.	-	-	-	-	-
Risk analysis	√	N.A.	-	-	-	-	√
Segment information	√	N.A.	-	-	-	-	-
Related parties disclosure	√	N.A.	-	√	-	-	√
Responsibility for financial statements	√	N.A.	-	-	-	-	-
Supervisory board report	√	N.A.	-	-	-	-	-

6. CONCLUDING REMARKS

Financial reporting in the world and the EU is subject to harmonization and many countries in the segment of listed companies use high quality IFRS standards developed by IASB. In 2002 the EU has decided to achieve a higher level of de jure financial reporting harmonization in the segment of listed companies on the platform of IFRS. Throughout the paper we have analyzed financial reporting requirements for listed companies in the EU and selected six transitional Eastern European countries (Slovenia, Croatia, Bosnia & Herzegovina, Serbia, Montenegro and Macedonia). The comparison of the current regulation reveals that although all the six sampled countries require IFRSs for listed companies there are significant differences in the regulation and there is large area for de jure harmonization.

De jure harmonization of financial reporting in the selected six countries should be analyzed in the EU enlargement process because it involves all of them. The empirical analysis of the current regulation has revealed that the EU member state (Slovenia) and two candidate countries (Croatia and FYR Macedonia) have more harmonized financial reporting regulation with the current EU requirements in comparison to the other countries from the sample, potential candidates countries (Bosnia & Herzegovina, Serbia, and Montenegro). In the case of candidate countries Croatia and FYR Macedonia harmonization of financial reporting has resulted from the negotiations with the EU and incorporating the EU regulation into the national regulation. As the process of negotiation is advancing the candidate country is implementing more EU requirements in the national regulation. In the case of Croatia we could observe that financial reporting requirements for the listed companies in the period of 1993-2008 were less demanding, but advancing of negotiations with the EU has brought higher reporting requirements from 2009.

Besides analysis of the regulation we have also conducted an empirical insight into the practice of mandatory reporting of the selected six countries. As expected, differences in the regulation are transferred into the financial reporting output for investors presented on the websites of securities commission and/or bourse. The analysis conducted for the potential candidate countries reveals that listed companies in Serbian Republic in Bosnia and Herzegovina and Montenegro publish more annual report elements than companies from B&H Federation in Bosnia and Herzegovina and Serbia. However, in all the potential candidate countries mandatory annual reporting does not include management discussion and analysis, risk analysis, statement of responsibility for financial statements and supervisory board reports.

On the basis of conducted research on listed companies financial reporting in the six selected Eastern European countries we were able to observe significant differences in regulation and practice of mandatory reporting. Findings indicate that in the potential candidate countries there is large area for de jure harmonization with the EU requirements. If the future EU enlargement process

continues with progression we could observe changes in the national regulation of Bosnia & Herzegovina, Serbia, and Montenegro and implementation of EU reporting requirements. Incorporation of higher financial reporting requirements should result in better IFRS implementation and better informed investors. Such developments might contribute to further development of local capital markets and attracting of foreign investors.

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**REGULATIVA FINACIJSKOG IZVJEŠTAVANJA ZA
LISTANE KORPORACIJE: ANALIZA ZA ODABRANE
TRANZICIJSKE DRŽAVE ISTOČNE EUROPE U PROCESU
PRIDRUŽIVANJA EU**

Sažetak

Financijsko izvještavanje predstavlja vrlo važan element za efikasno funkcioniranje tržišta kapitala, te su razvijene države u segmentu listanih korporacija u prošlom desetljeću povećale zahtjeve za obveznim izvještavanjem. Budući da regulativa financijskog izvještavanja u tranzicijskim državama nastoji pratiti moderne trendove, glavni je cilj ovog rada analiza regulative financijskog izvještavanja za listane korporacije u šest odabranih tranzicijskih država iz istočne Europe koje su u različitim fazama pridruživanja EU (Slovenija, Hrvatska, Bosna & Hercegovina, Srbija, Crna Gora i Makedonija). Nadalje, u radu se pored regulative analizira i praksa obveznog financijskog izvještavanja temeljem empirijskog istraživanja vebne stranice regulatora i lokalnih burzi. Analiza trenutačno važeće regulative pokazuje da država članica EU i dvije države kandidati imaju usklađeniju regulativu financijskog izvještavanja sa zahtjevima EU u odnosu na države potencijalne kandidate. Uočene razlike u regulativi financijskog izvještavanja prenesene su i u izvještaje koji su ulagačima dostupni na vebnim stranicama regulatora i burzi.

Ključne riječi: Regulativa, financijsko izvještavanje, listane korporacije, EU.

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