Coordination of Accounting and Financial Aspects of the Capital Market in Republic of Macedonia with the Regulation System of the European Union

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Abstract

Objectives: The objective of this paper is to perceive to where is the coordination of the accounting and financial aspects of the capital market in Republic of Macedonia with the regulation system of the European Union. Methods: For this perception are analysed regulations with which European Union regulates the capital market, which are accepted in Republic of Macedonia and are in coordination with the domestic legislative. Results: With introduction and preparation of the regulations the legal framework of Republic of Macedonia is improving and strives to coordination with the European regulation with aim achieving confidence and safety among foreign investors and development of capital market in the Republic. Conclusion: A decade ago lot of significance was given to coordination of the accounting and financial aspects of the capital market in Republic of Macedonia with the regulation market of the European Union, with accepting of the regulation and directives of the European Union and coordination with the laws with which the capital market is regulated with the European laws.

Introduction

Capital market in the European Union is regulated with the following regulations and guidelines of the European Union.

Regulation (EC) no.1606/2002 of the European Parliament and the Council: Regulation demands from the companies that quoted on the stock exchange, including banks and insurance companies, to prepare the consolidated accounts in accordance with the accepted International standards for financial information starting from 2005. Countries members of the European Union also have opportunity to broaden the conditions from this regulation of companies which do not quoted on the stock exchange and preparation of the annual accounts. Regulations of the European Commission accept the standards as agreed and demanded.

Directives for prospects (2003/70/EC): This directive together with the Regulation no. 809/2004 of the European Commission determines the information consisted in the prospects, as well as the form and rules for publishing such prospects and distribution of promotional material. It is a base of creation of original market of financial services and completing the Action plan of the European Union for financial services. With harmonization of the necessary demands for revealing, the new legal framework as whole produces effective "unique passport" for the subjects who execute effective securities from and out of the European Union. With other words, that means that if prospect is certified in one country-member, the same can be used in all the others, with which bureaucracy and costs for the subjects which do emission of securities are decreased.

Directives of transparency (2004/109/EC). This directive is determined by minimal demands of transparency of the companies which quoted on the stock exchange, with which the quality of the information is improved available to the investors for successful and financial state of the company. According to the directive, all subjects which do emission securities should apply annual financial reports four months after finishing the fiscal year. Also, the investors in action will get more complete semiannual reports.

Directives of companies for collective investment movable securities (UCITS) (85/611/EEC). The directive determines the general rules to allow the investment companies from countries members of the European Union to bring its units to the markets of the other countries members of the European Union (unique passport).
1. Coordination of the Law on Securities

Republic of Macedonia has made great progress in development of the institutional and legal framework required for the vitality of the market economy. It is achieved particularly a lot in the part of the reforms in the financial and capital market, but is required further reforms for development of the domestic capital market, especially about the future demand of domestic securities from the pension funds.

Ending of the privatization on the rest of the public enterprises will enable fulfillment of the effective profits and providing financing of the transition deficits of the pension reform.

Acceleration of the economic development and process for alignment to European Union requires escalation of the structure reforms as part of the macroeconomic policy of the state in regulated deadline. Fulfillment of the strict criteria for membership in the European Union is deep structural and institutional reforms in many sectors. It is required extending of the reforms in many sectors of the economy in direction for improving the investment climate and business surrounding, which is expected to affect on the increase of the economic increase and employment.

Harmonization of the Macedonian with European legislation is substantial part of the entire Euro integration process. This process does not imply technical introduction of the European norms in the Macedonian laws, also essentially agreement with the principles and policies of the European Union. That means inserting particular norms in most appropriately manner, in accordance with the legal system of Republic of Macedonia as well as terms for economic and social life. Therefore, that essence of the process for accommodation of the entire system, including the legal system in accordance with the principles, aims and legislation of the Union.

In the Republic of Macedonia the legitimate regulative in the domain of the capital market (Law on securities, Law on undertaking trade companies, Law on investment funds) from the moment of its legislation till today has undergone the line of amendments which were in direction of its bigger harmonization with the international legal regulation. For the high level of agreement of the Macedonian regulation with international standards in the domain of corporation management speaks the results from the Transition report 2005 from EBRD in which report is covered the problem of corporation management. Transition countries are ranked in five categories, whereupon Republic of Macedonia in the qualification was ranked in group of countries with high level of consistency in the legal framework with international principles.

Unlike our country, the other Balkan countries (Albania, Bulgaria, Croatia, Serbia, Montenegro and Slovenia) are ranked in the group of countries with medium level of consistency. Herewith fastening the procedure of harmonization of the Macedonian regulation in this domain is the effort of the stock exchange and connection with other stock exchanges in region and further.

2. Coordination on the Law on Undertaking Join Stock Companies

Aim of the coordination on the Law on undertaking join stock companies is to enable equal position of the stock holders when one join stock company is composed with an offer for taking from side of one investor. Providing public approach to relevant information, transparency in the procedure for undertaking and control from the regulative body of securities as well disabling of the inexcusably hardening from undertaking from the insiders, with aims that need to achieve with this law.
Amendments are needed on the law on undertaking joint stock companies which will provide bigger protection of the small stock holders, bigger transparency and complete information of the shares’ owners and of the public and coordination of the law on undertaking the joint stock companies with directions of EU.

With aim to allow realization of the project for issuing short term securities, it will perform circling of the legitimate measure in the field of trading with short term securities and establishment of the institutional framework of management of the public debt. It is predicted to enact for trading through window, it will intervene in the bylaw acts, it will exercise treatment of the procedure of the primary and secondary trading of the short term state securities, creating system of alignment of the transaction of the transaction of the state securities in the Central Securities Depository, which will allow alignment of the transaction during the same day.

3. Coordination on the Law on Investment Funds


4. Coordination of the Law on Trade Companies

In 1993 on the Copenhagen summit, countries members of the European Union determined the criteria which every country wants to take part:

It is achieved stability of the institutions which guarantees democracy, rule of law, human rights and respecting the minorities (political criteria);

- Existence of market economy which functions as capacity to deal with the pressure of the competition and market forces of the Union (economic criteria) and

- Capability to undertake the liabilities of the membership, including the joining towards the aims of the political, economic and monetary union.

Later this criteria were complemented and explained on the summits in Madrid (1995), Luxemburg (1997) and Helsinki (1999), but often as additional (Madrid) criteria is indicated the need of developed administrative and court capacity for enforcement of the determined mutual benefits (acquis).
Republic of Macedonia has made a big improvement in the development of the institutional and legitimate framework required for the vitality of the market economy. It is achieved a lot especially in the part of the reforms of financial and capital market, but further reforms are needed for developing the domestic capital market, especially in regards for further demand of the domestic securities from the pension funds.

Ending of the privatization of the remaining public enterprises, it will enable effective profits and providing of financial transition deficits of the pension reform.

Acceleration of the economic development and the process of aligning to the European Union inevitably seek for intensification of the structural reforms as part of the macro economical policy of the country in medium deadline. Fulfilling the strict criteria for membership in the European Union is a deep structural and institutional reform in more sectors. It is required continuing of the reforms in more sectors of the economy in ways bettering the investment climate and business surrounding, which is expected to affect the increase of the economic increase and employment.

Harmonization of the Macedonian with the European legislative is substantial part of the entire process of euro integration. This process does not involve technical involvement of the European norms in the Macedonian laws, but actual coordination of the principals and policies of the European Union. That means installing of particular norms on most appropriate manner, in accordance with the legal system of Republic of Macedonia, as well as conditions for economic and social life. Hence, the essence of the process for adaptation of the whole system, including the legal system in accordance with the principles, aims and legislative of the Union.

According to that since 2005 the enterprises of the European Union during composition and presentation of the accounting reports must use the International standards for financial information from EFRAG - European Financial Reporting Advisory Group. Its aim is grading of the International standards for financial information authorized by the Board for International accounting standard, and it will act as technical board for the European Union. It is consisted of: people who make accounting reports, users of the accounting information and reports as part of the accounting reports, accounting profession and delivers of the accounting standards in the countries members of the European Union.

In the framework of the integrated European market of values it is necessary companies to quote on the market to make the accounting reports in accordance with the International standards for financial information. So, the aim of the European advisory group for financial information is to ensure communication of the International Accounting Standards Committee with aspiration for complete understanding of the questions connected with the International accounting standards of the European Union (International standards for financial information).

Coordination of the national legislature of Republic of Macedonia with the European legislature is requirement for membership in the European Union, but also is a fact that using the assets from the funds of the European Union is subject to the term of complete coordination of the legislature of the European Union. From hence, the legal framework is one of the parts from the capacity of the state for using the fund’s assets.

Apart from the global determination for harmonization of the regulation of capital market in Macedonia with directives of the European Union, as biggest reforms in this area is considered the one which derive from the Strategy for development of the market of state securities.

The basic aim of this strategy is oriented towards the development of the primary and the secondary market of state securities, which need is to enable more effective functioning of the budget needs in shortest
term (uninterrupted current financing of the public expenses) and in long term (providing long term financial resources for support of the economy development).

At the same time, at the beginning the efforts will be concentrated on the development on the market on the short term securities with aim more effective management of the Budget’s liquidity, which deadline will be gradually extended depending on the success of the country in acquiring confidence in the potential investors.

It is needed to extend the process of improving and reinforcing the legislative in the domain of insurance and its further coordination with directives of the European Union and the principles and standards of the International Association of insurance auditors. At the same time, the emphasis should be put on bigger and more effective implementation of the insurance regulation through adequate conducting of the supervising function and enhancing of the administrative capacity of the supervising body.

The amendments of the Law on undertaking the joint stock companies are required which will provide bigger protection of the small share holders, bigger transparency and complete information of the owners of shares and audience and coordination of the law on undertaking joint stock companies with directives of EU.

With aim to allow realization of the project for issuing short term securities, it will be made rounding of the legal legislative in the area of trading with short term securities and establishment of the institutional framework for management with the public debt.

It is predicted to promulgate act for trading through window, it will intervened in the bylaw acts, it will conduct elaboration of the procedures for primary and secondary trading of the short term government securities, creating a system for aligning of the securities with the government securities in the Central depositary for securities which will enable aligning of the transaction during the same day.

The development of primary market of government securities will rest in accepting market principles through covering the budget deficits, which imply flexible and competition determination of the interest rates. One of the main preconditions for faster development of the government securities is clearly defined in the legal, regulatory and supervision framework, the basic parts of the legal regulation which support effective market of government securities.

Taking into consideration the contemporary social-economic and business integration movements, not only in the frameworks of one national economy, also on international plan, in the accounting-financial theory and practice from the domestic and foreign origin domination place, role and meaning is dedicated on the problems in relation with the unification of the economic and accounting-financial categories which are met in the framework of the accounting systems in particular social-economic and business integration totality.

Also, to provide Macedonian laws and regulation consistent to the relevant standards which are issued by the Commission of the European governors of securities (CEGS), which role is to coordinate the work of the members of CEGS in accepting and conducting the standards of financial information in Europe.

Hence, it is required to get legal and regulatory framework which support contemporary surrounding for information of the subjects which quote on the stock exchange in relation to liabilities which are important part of acquis communautaire.

Improving the quality of corporation financial information goes further from particularly accounting and revision.
The strategic aims and gains are the following:

- European integration
- Better approach to credits
- Growth of the private sector and new working places
- Development of the capital market
- Development of the financial sector and
- Financial stability

Today European Union is the biggest (regional) market in the world. One of the biggest achievements in shaping the unique market in the European Union is enacting the Strategy of financial accounting information. It is about long term accounting changes, particularly in the financial accounting information. The International Organization Securities Commissions is formed by government representatives with aim to prescribe or adopt the rules for presentation of the financial reports of the enterprises, which shares quoted on the stock exchange in almost every foreign country. The international organization for the Securities commission most persists to protect the rights of the stock holders and more effective to regulate the securities market, but it has impact on shaping the international accounting practice.

Improving the quality of the financial information in Macedonia has substantially and positive impact through:

- Decreasing the risk of the crisis of the financial market and related negative economic influences through strengthening of the domestic financial architecture.
- Influences on the foreign direct and portfolio investments and helping of mobilization of the domestic savings
- Helps on the approach of the small corporation borrowers to credits of the formal financial sector through decrease of the high costs for informing and borrowing
- Enables the investors precisely to evaluate the business perspectives and to bring informed investment and voting decision, which results with lower price of the capital and better allocation of the assets
- Enables of the stock holders and broad public to evaluate the work of the company’s administration, with which is promoted the active development of the capital markets and
- Supporting the economic integration in the region and globally.

5. **Benchmarks for improving the quality of the framework for corporation financial information**

Acquis Communautaire: International Accounting Standards Board (IASB)

International Standards for revision and other proclaims of (IFAC)

Good international practise

The accession to the National administrative board to empowering of the legal and institutional framework is lead the primary benchmark, i.e acquis communautaire, complemented with the International Accounting Standards Board, International auditory standards and good international practice.

The national strategy needs to determine line of priority aims on high level which are base of the national strategy which will be performed through single activities determined by plan.

1) Improvement of the framework for corporation financial information.
2) Empowering of the key factors in the framework of corporation information

3) Supporting the auditory profession

4) Supporting the education, training and public awareness.

The activity in relation with the coordination of the framework for corporative financial information includes the following:

Considering and in need of amendments of the Law on Trade companies and related bylaw acts to accomplish coordination of the Fourth directive with annual accounts, the Seventh directive for consolidated accounts and the Regulation of the European Parliament and the Council. Particularly the definition for the benchmarks for financial information of small and medium enterprises that allows acquis communautaire, taking into consideration gross domestic product in Macedonia established on the purchasing power per capita against the average of the European Union - could decrease the strain of the small and medium enterprises on two ways:

- Duties for financial information-it will allow on small and medium enterprises to use simplistic conditions for financial information and
- Duties for legal revision- mandatory legal revision only with the medium companies and bigger as replacement of the "subjects" and "public interest". With this it will evade unnecessary auditory burden on the small and medium enterprises and will enable better balance given the limited number of qualified auditors in Macedonia.

It will adopt simpler accounting standards for small and medium enterprises which are prepared by the International Accounting Boards. In this respect, Macedonia needs to emphasize the importance of the experience in the comparable countries-members of the European Union during adopting the accounting standards for small and medium enterprises coordinated with the principle of the Fourth directive for annual accounts.

As most important problem in relation with the financial information of the European Union is brought out the question of global "players" which additional resources of financing are seek on the international capital market. Such companies are enforced to compose the two financial reports—one in accordance with the national legislature on the basis of the Fourth and Seventh directive and other who seek the international capital markets. On basis of that, such companies only they face with additional expenses but same state is confusing as for investors, as well as public.

After examination of the possible solutions of the mentioned problems the Commission proposes country members of its big companies, hence the one the capital seek on the international capital markets and which quote on capital market allows to make consolidated financial reports in accordance with the International accounting standards. The same reports, however must be in accordance with the Accounting directives. On the basis of that reposition countries members-Austria, Belgium, Belgium, Germany, France, Finland and Luxemburg allow the companies to quote on the stock exchange to make the consolidated financial reports in accordance with International accounting standards or with the American General Accepted Accounting Principle (US GAAP). On the basis of the above mentioned the companies of the European Union through making the financial reports use different standards:

National standards which are based on the Accounting directives (Fourth and Seventh directive) International accounting standards or US GAAP.
Due to the use of those different standards, financial reports were not comparable, so it need determination of the unique set of accounting standards.

6. Advantages and Disadvantages of the Legislative Framework

Law on securities has an aim to initiate the development of the securities market in the country and providing more quality more consistent legal framework which offer more acceptable conditions for attraction of domestic and foreign investment public of the Macedonian market on the securities. Also the new Law on securities is coordinated with the relevant directives of the European Union. Provisions of the Law on securities are continual improvement of the legal framework which regulates the working of the securities and enables high level of coordination of the Macedonian regulation with the international securities standards. The Law offers new legal decisions which are in step with the contemporary trends of working with securities in the developed countries. With the new Law on securities are retained and elaborated the principles on the legitimacy, transparency, no discrimination, competition, protection of the owners of securities and investors, empowering and increasing of the legal insurance.

The aim of the Law on undertaking joint stock companies is to enable equal position of the share holders when one joint stock company is faced with the offer for undertaking from one investor. Providing public approach to the relevant information, transparency of the procedure of undertaking and its control from the regulation body for securities, as well as prevents unreasonably difficulty in undertaking from the insiders, are aims which need to be accomplished with this Law. With the Law on investment funds are regulated the conditions for establishing investment funds and companies for management with investment funds and manner of their working, the choice of deposition bank and control of their working.

The amendments of the Law on investment funds should be in way of complete coordination of the European directives which regulate the working of the investment funds. With amendments, liberalization of establishing and working of the investment funds should be made.

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