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REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)

Corporate Governance Country Assessment
SLOVAK REPUBLIC

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This Corporate Governance Assessment was completed as part of the joint World Bank-IMF program of Reports on the Observance of Standards and Codes (ROSC). It benchmarks the country's observance of corporate governance against the OECD Principles of Corporate Governance and is based on a template developed by the World Bank. This assessment was undertaken on the basis of the template prepared by Linklaters for the World Bank. Acknowledgments are due to the Ministry of Finance, Financial Market Authority (FMA), Ministry of Justice, Bratislava Stock Exchange, Securities Center, Association of Securities Brokers, and leading local experts on legal, accounting and auditing issues, academics, state-owned companies, capital market issuers, and institutional investors. Alexander Berg of the Investment Climate Unit of the Private Sector Development Department of the World Bank drafted the final report. The ROSC assessment was cleared for publication by the Ministry of Finance on September 4, 2003.

I. EXECUTIVE SUMMARY

This report provides an assessment of the corporate governance policy framework and enforcement and compliance practices in the Slovak Republic.[1] Slovakia has already upgraded its legislation to meet European Union (EU) Directives. The legislative and regulatory framework dealing with corporate governance issues has improved.

The major issues identified by this review include: (i) the general weakness of the supervisory board, which causes some non-compliance with several OECD Principles; (ii) lack of protection for shareholders of "Free Market" companies, and (iii) inadequate authority and institutional capacity at the Financial Market Authority (FMA). Strengths and weaknesses are highlighted and policy recommendations made where appropriate.

The report proposes that an Institute of Directors be created to train supervisory board members, disseminate best practice, and promote dialogue between the public and private sectors. Together, the recommendations give issuers the choice to implement best practice and investors a benchmark against which to measure corporate governance in Slovakia.

II. CAPITAL MARKETS AND INSTITUTIONAL FRAMEWORK

Slovakia has posted robust economic performance since 1997, with GDP growth averaging about 4.5 percent per year, unemployment down to about 15 percent, and inflation to seven percent by end-2001. Slovakia's overall development framework and its successful implementation are based on its drive to join the European Union (EU). Slovakia expects to accede by 2004.[2]

The privatization program of the early 1990s set many of the equity market's characteristics. Coupon privatization led to as many as 1,000 firms being listed and traded. No major companies were privatized directly through the stock exchange. Until 2000, the market was lightly regulated and was tarred by scandals involving privatization investment funds and more recently, unlicensed funds.

Trading on the Bratislava Stock Exchange (BSSE), the only stock exchange, began in 1993.[3] The equity market is divided into two tiers: Listed Market and Free Market.[4] Listed issues have listing requirements that include free float, number of shareholders and regular information disclosure; they must follow International Financial Reporting Standards (IFRS). Free Market companies are mostly legacies of the privatization program, and rarely trade. For securities to be admitted to the Free Market, the BSSE only requires compliance with "conditions stipulated by law."[5]

Market capitalization of the ten listed companies at year-end 2002 was 3.4 percent of GDP. Most trading occurs in five companies. Five companies are in the manufacturing sector, four in financial services and IT, and one in energy. Two are listed abroad.[6] The 495 share issues traded on the Free Market (unlisted) add 6.4 percent of GDP, for a total of 9.8 percent. The Free Market also includes 136 issues that have never formally traded (so-called "nominal" companies). The

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[1] Henceforth Slovakia.
[2] World Bank, Country Assistance Strategy, April 2002.
[3] www.bsse.sk. The Slovak Stock Exchange, based on the RM-System developed during privatization, recently ceased operations.
[4] The listed market is further divided into the main listed, parallel listed, and new listed markets. Differences among the listing and disclosure requirements of the tiers are not large, and this report refers in general to "listed" issuers.
[5] The BSSE is entitled to admit a security to the free market without an application. Government bonds are admitted to trading on the main listed market without the prospectus and without being reviewed by the Committee.
[6] Slovakofarma GDRs trade on the Luxembourg Stock Exchange, and Nafta Gbely shares trade on the Frankfurt Stock Exchange.

number of listed companies and issues is declining. In 2002, over 300 issues were removed from the Free Market for failing to meet even their limited disclosure requirements.

Slovakia's capital markets are small and shallow relative to its neighbors. Market capitalization, value traded, and turnover relative to market capitalization are lower than those of neighboring countries. Listed company ownership is highly concentrated, and a review of larger listed firms suggests that many "blue chips" may soon delist. An informal analysis of four listed firms suggests that over ¾ of 2002 market capitalization could be expected to delist in 2003.

Slovakia's institutional investors are growing rapidly, but appear to hold few Slovak shares. As of February 2003, total assets of Slovak open-ended investment funds amounted to SKK 20 billion (about USD 0.5 billion), although only seven percent of that total was invested in equities (the majority of which was invested outside Slovakia). Anecdotal evidence suggests that equity holdings of other financial institutions (banks and insurance companies) are also limited.

Slovak private law is based on civil law. The corporate governance framework has recently undergone a major revision as part of EU harmonization efforts and a drive to incorporate the OECD Principles into Slovak legislation. The broader reform agenda was laid out in a 2000 concept paper adopted by the Government.

The Commercial Code has general rules on all forms of business associations/company forms and sets the rules that apply to them. The most widely used and modern company forms are the limited liability company (*spoločnosť s ručením obmedzeným*, or "s.r.o."), selected by most Slovak companies, and joint stock companies (*akciová spoločnosť*, or "a.s."). Only an a.s. may issue shares, and thus be listed at the stock exchange. A joint stock company may be private or public. A firm that has issued all or part of its shares on the basis of a public call for subscription of shares, or whose shares were accepted by a stock exchange to be traded, is regarded as a publicly-traded joint stock company. A publicly-traded joint stock company (which is unlisted and has fewer than 50 shareholders) may convert to a private company if all shareholders agree. Free Market firms are treated as "publicly-traded" but "unlisted" under the new legal framework.

The Commercial Code was overhauled in 2001. Corporate governance reforms focused on information and voting rights of shareholders, disclosure requirements, liability provisions for directors and officers and the introduction of shareholder derivative suits. The goal of the reform was to eliminate the asset stripping and "tunneling" so frequently observed during the 1990s. The other key law affecting listed companies is the Act on Securities (AS), which was enacted January 1, 2002 and governs all activities, products and institutions related to the capital markets. It replaces several fragmented laws and regulations.

The Financial Market Authority (FMA) was established in 2002, and is authorized to supervise the securities market and insurance companies.[7] The FMA supervises the activities of securities brokers and other investment service providers, including the Bratislava Stock Exchange, the (future) Central Depository, custodians, investment funds, and insurance companies and brokers. It cooperates with the Ministry of Finance on the preparation of secondary regulations, but lacks the authority to issue legally binding regulations; it will thus face difficulties in responding quickly to corporate governance violations not spelled out in law or regulation. The law allows

[7] Abbreviated as "UFT" in Slovak. Legislative framework provided by the Act 96/2002 on Supervision over the Financial Market and on the Change and the Amendment of Certain Acts, in effect since April 1, 2002.

the FMA to collect its own revenues to supplement funds from the state budget. It further explicitly requires the FMA to conduct supervision impartially and independently.

The FMA capital market section has oversight over stock exchange and publicly listed share and bond issues. It has relatively strong authority over supervised and licensed entities (financial institutions), but limited authority over securities issuers. It has no apparent power to sanction those who are not employed by supervised entities, and it has no general duty to protect shareholder rights. FMA has a staff of about 90, is independent of government salary scales and can set its own employment terms. In 2005, the government plans to create a unified supervision agency under the National Bank of Slovakia (NBS) by integrating the FMA with the banking supervision agency. NBS has constitutional authority to issue binding secondary regulations.

Companies file fundamental documents in the Commercial Register, which is maintained by one of eight District Courts and is open to the public.[8] Records include company foundation documents, articles of association,[9] contracts or agreements with board members, trade licenses, certain Annual General Meeting (AGM) minutes, financial statements and annual reports.[10]

Stakeholders interested in improving corporate governance standards, led by the FMA and BSSE, have created a Corporate Governance Code that lays out best practice recommendations. BSSE listing rules will require companies with securities (including bonds) listed on the main market to report compliance with the Code on a "comply or explain" basis from January 1, 2004.

III. REVIEW OF CORPORATE GOVERNANCE PRINCIPLES

This review assesses Slovakia's compliance with each OECD Principle of Corporate Governance. Policy recommendations may be offered if a Principle is less than fully observed.[11]

Section I: The Rights of Shareholders

Principle IA: The corporate governance framework should protect shareholders' rights. Basic shareholder rights include the right to: (1) secure methods of ownership registration; (2) convey or transfer shares; (3) obtain relevant information on the corporation on a timely and regular basis; (4) participate and vote in general shareholder meetings; (5) elect members of the board; and (6) share in the profits of the corporation.

Assessment: ***Partially observed***
Description of practice: Most basic shareholder rights are protected under the law and practice.

Secure methods of ownership registration. The Securities Center (SCP) performs all shareholder record keeping for publicly-traded companies.[12] It is a central registry and interacts directly with registered shareholders. Nominee ownership is not a recognized concept. Only shareholders listed in the SCP's share register have ownership rights. Institutional investor

[8] Some information is online (in Slovak) at www.orsr.sk , but the other documents must be reviewed in person in the Collection of Documents at each Register location. The costs associated with obtaining information are low (10 Slovak crowns for copy of one page from the Collection of Documents up to a few hundred Slovak crowns, depending on the complexity of the request).
[9] For simplicity this report will refer to company articiles of association and other company documents as "bylaws."
[10] In Slovakia's two-tier board structure, the management board is typically referred to as the "board of directors." We use the term "management board" for the international reader, to avoid confusion with the supervisory board.
[11] **Observed** means that all essential criteria are met without significant deficiencies. **Largely observed** means only minor shortcomings are observed, which do not raise questions about the authorities' ability and intent to achieve full observance in the short term. **Partially observed** means that while the legal and regulatory framework complies with the Principle, practices, and enforcement diverge. **Materially not observed** means that, despite progress, shortcomings are sufficient to raise doubts about the authorities' ability to achieve observance. **Not observed** means no substantive progress toward observance has been achieved.
[12] The SCP was set up in 1992 and began servicing the privatization program in 1993. It is owned by the Ministry of Finance.

accounts are set up in their own name. “Custodians” appear to provide oversight over the securities account, but are not directly responsible for administration. The Securities Act clearly intends the Securities Center to become legally licensed as a “Central Depository.” See Annex C.

Convey or transfer shares. Shares of publicly-traded companies are freely transferable. Pursuant to Article 156 (9) of the Commercial Code, the bylaws of non-publicly-traded joint stock companies may limit (but not eliminate) transferability of their shares. If share transfers are subject to company approval, then the exact reasons for refusal must be set out in the bylaws.

The BSSE carries out the clearing and settlement of reported transactions. The clearing and settlement of electronic order book transactions is carried out on a relatively informal "delivery-versus- payment" (DVP) T+3 basis.[13] Block trades (negotiated trades) and repo transactions are settled at member request, for securities only. By the end of 2003, OTC trades in listed companies will be allowed. These trades must be reported through the Central Depository.

Companies with book-entry shares (including all listed companies) may block share transfers up to five days before the AGM. Share blocking is required for banks.

Obtain relevant information on the corporation on a timely and regular basis. Shareholders may obtain complete and accurate information on the company. They have access to information (including bylaws) at the Commercial Register, and to annual and semi-annual reports filed by listed companies. Companies are also required to publicly disclose material information.

Participate and vote in shareholder meetings. Shareholders may attend and vote at the AGM.

Elect members of the board. The AGM usually appoints and removes the directors of both boards by a simple majority of voting rights present. Board members are elected for terms of less than five years. The bylaws may provide that the management board is elected and removed by the supervisory board. The Commercial Code provides that cumulative voting is the default method for electing supervisory board members, but companies can opt out. This provision does not appear to be used, and most observers were not aware that it existed in the Code.

Share in the profits of the corporation. Shareholders have the right to share in profits and to participate in the liquidation balance upon the company’s winding up.

Policy recommendations: The BSSE, SCP, and regulators should focus on developing an internationally recognized Central Depository. Efforts should be made to reach out to international custodians and sub-custodians, so that the new Central Depository can better serve the needs of international investors. Future legal revisions should consider a “date of record” for listed companies so that shares do not have to be blocked.

Principle IB: Shareholders have the right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes, such as: (1) amendments to the governing documents of the company; (2) the authorization of additional shares; and (3) extraordinary transactions that in effect result in the sale of the company.

Assessment: ***Partially observed***

Description of practice: Shareholder meetings have authority over most fundamental decisions, including amendment of the company charter, board member appointment, changes in share

[13] All clearing and settlement remains at the stock exchange. The SCP moves shares at the order of the exchange, but carries out no other clearing and settlement functions. An informal DVP system allows the BSSE to send orders to the Central Bank to exchange funds, and to the SCP to exchange shares.

rights, mergers and takeovers, and dividend approval.[14] Most AGM resolutions are made by simple majority, but some important decisions may require an EGM with a special supermajority vote of 66 percent of shareholders present. Shareholder approval of large or unusual transactions is not required. Shareholders have preemption rights for new share offerings, but rights can be waived by a simple majority. Share buybacks can be approved by a simple majority vote. The AGM can authorize the management board to increase capital for a period of up to five years.

Policy recommendations: "Large transactions" should be explicitly defined in the Commercial Code, and shareholder approval (with supermajority) should be required. Waivers of preemption rights and approvals of share buybacks should require a supermajority vote. Policymakers could consider providing a "right of withdrawal" to small shareholders who vote against fundamental decisions taken at an AGM.

Principle IC: Shareholders should have the opportunity to participate effectively and vote in general shareholder meetings and should be informed of the rules, including voting procedures, that govern general them. (1) Shareholders should be furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be decided at the meeting. (2) Opportunity should be provided for shareholders to ask questions of the board and to place items on the agenda at general meetings, subject to reasonable limitations. (3) Shareholders should be able to vote in person or in absentia, and equal effect should be given to votes whether cast in person or in absentia.

Assessment: ***Largely observed***

Description of practice: AGMs are normally convened by the management board, although in exceptional cases they can be convened by the Supervisory Board. Extraordinary meetings (EGMs) may be convened by shareholder(s) holding at least 5 percent of the registered capital of the company, or if the management board discovers that losses of the company exceed 1/3 of registered capital.[15] There is no quorum requirement for either first or second meetings, and all decisions are made on the basis of ordinary or supermajorities of capital present.

All shareholders may attend AGMs, vote, request information and explanations and submit proposals. The AGM should take place at company headquarters unless bylaws state otherwise. The notice must be published in a national financial newspaper at least 30 days before the meeting, and must include the type (AGM or EGM), place, date, time, and agenda. The agenda must include any draft bylaw amendments and the names of any nominated board members.

Shareholders with 5 percent of capital can request information and explanations at the AGM.[16] As a result of Commercial Code amendments, 5 percent of shareholders can force items onto the agenda.[17] Shareholders must request this after publication of the meeting notice, but more than ten days prior to the AGM. The new agenda item must be re-circulated at company expense.

Shareholders may vote at the AGM by written proxy. A supervisory board member cannot be appointed as a proxy. By law, proxies do not have to be notarized, but company bylaws commonly require this. Mail and electronic voting is not allowed.

Recent Commercial Code amendments have strengthened rights of small shareholders However, some players in the market exploit the new rules, resorting to "greenmail" by forcing an EGM without having major business to be conducted. The elimination of the quorum establishing the

[14] Table 4 in Annex E contains a detailed list of shareholder meeting and board rights and obligations.
[15] Article 181(1) of Commercial Code. If the Extraordinary General Meeting is requested by shareholders, the management board must convene the EGM within 40 days of the day of the request.
[16] Article 180(1) of Commercial Code.
[17] Article 182(1) (a) of Commercial Code

minimum represented share capital to constitute a legally valid meeting also allows 5 percent shareholders to call meetings at which none of the major shareholders may be present. Company meetings are usually poorly attended if there are a large number of small shareholders.

Policy recommendations: Policymakers should carefully monitor "abuses" of minority shareholder rights, and balance the potential for abuse against protections for small shareholders. In other central European countries, an absence of quorum requirements has been the source of abuse and places an additional burden on regulatory agencies to ensure that the detailed requirements for conducting shareholder meetings are fully met. The re-imposition of a relatively low quorum (30 percent) for first meetings should be considered. A minimum quorum on the second shareholders' meeting would be helpful, but barring such a requirement, the authorities should monitor the conduct of shareholders' meetings to ensure that the provision is not abused.

The planned information systems under development by the BSSE (and FMA) should republish meeting notifications as material events. The training of judges, coordinated by the Ministry of Justice, should also help protect large shareholders against abuse of the 5 percent provisions.

Principle ID: Capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed.

Assessment: ***Partially observed***

Description of practice: Listed company shareholders must disclose when their ownership crosses specific thresholds (5, 10, 20, 33, 50 and 60 percent) of their share of voting rights. The threshold must take into consideration shares held by third parties but under the control of the disclosing shareholder, including shares covered by shareholder agreements. The shareholder must inform the issuer, the Central Depository, and FMA within three days of crossing the threshold.[18] The Central Depository is responsible for making the information public.

Shareholder agreements need not be disclosed.[19] Typical agreements cover rights of first refusal and other restrictions on share transfers, approval of related-party transactions, and director nomination. Such agreements are common, especially when there is foreign capital participation.

Policy recommendations: The law requires disclosure of indirect shareholdings by direct shareholders but does not appear to require disclosure of the ultimate shareholders in complex interlocking corporate structures. Shareholder agreements should be disclosed as material events and in the annual report. Crossing ownership disclosure thresholds should be considered material events and be disclosed "without undue delay" (rather than three days), through a new, unified information disclosure system.

Principle IE: Markets for corporate control should be allowed to function in an efficient and transparent manner.

Assessment: ***Partially observed***

Description of practice: Because of the highly concentrated ownership structure, opportunities for takeovers are limited. Controlling shareholders are well entrenched.

A shareholder (or shareholders acting together) whose shareholding in a listed company reaches 33 percent, 50 percent or 60 percent must declare a tender offer to purchase all listed shares. All shareholders of the same class must be treated equally. The minimum offer price is set out by

[18] Act on Securities, Article 113 (1).
[19] Shareholders agreements were prohibited for publicly listed companies under the Commercial Code, through 2001.

law.[20] The offer must be approved by the FMA before it is published. The offeror must disclose its shareholding in the target company and other details at least once a week after publication of the offer. A mandatory tender offer may not be cancelled. The offer can be changed (valid the beginning of the last week of the offer-term), subject to FMA approval.

The FMA has oversight over takeovers. Compliance with the Securities Act is monitored and sanctions are imposed by the FMA, although the law is untested. Additional regulatory permissions are required in specific sectors (e.g. insurance, banking). Competition restrictions are regulated and enforced by the Antimonopoly Office.

There are no squeeze-out provisions. To delist from the exchange, an AGM must vote for a delisting resolution. Following passage of the resolution, a tender offer must be made to all shareholders who did not vote for the resolution.

Policy recommendations: A minimum price of 50 percent of book value is low. Given the importance of mandatory tender offers to Slovakia, this offer price may hurt small shareholders. A review of takeover provisions should be carried out at the conclusion of the Slovnaft case.[21] To speed consolidation and delisting of the Free Market companies, policymakers should explore a "squeeze-out" rule with a high threshold (e.g. if a shareholder acquires 95 percent of shares, s/he should be allowed to acquire all other shares at a certain price). FMA (through the Ministry of Finance) should issue detailed squeeze out valuation procedures.

Principle IF: Shareholders, including institutional investors, should consider the costs and benefits of exercising their voting rights

Assessment: ***Materially not observed***

Description of practice: Shareholder activism in Slovakia depends on each shareholder's degree of control. Typically, publicly-traded companies operate with the controlling influence of one or two shareholders, who tend to monopolize AGMs. True institutional investors in Slovak shares appear to be rare. A leading insurance company and investment fund both reported zero holdings. There is little shareholder activism. Open mutual funds are required to disclose their voting policies and activities, but closed-end funds and private pension plans are not.

Policy recommendations: Pension funds should be obliged by regulation to disclose their voting policy. Voting should be made as easy as possible. Awareness of successful international experiences of shareholder activism should be raised. Those redrafting a Corporate Governance Code may also want to consider the question of investor responsibility.

Section II: The Equitable Treatment of Shareholders

Principle IIA: The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights. All shareholders of the same class should be treated equally. (1) Within any class, all shareholders should have the same voting rights. All investors should be able to obtain information about the voting rights attached to all classes of shares before they purchase. Any changes in voting rights should be subject to shareholder vote. (2) Votes should be cast by custodians or nominees in a manner agreed upon with the share's beneficial owner.

Assessment: ***Largely observed***

Description of practice: The Commercial Code does not require one share/one vote. Companies

[20] The offer price may not be lower than: 1) the average price at a stock-exchange during last six months before the acquisition; and 2) 50 percent of book value, at the time of the last audited accounts, before the mandatory tender offer was published.

[21] As of April 2003, MOL (a foreign strategic investor) had acquired more than 70 percent of Slovnaft (a leading Slovak blue chip) shares. Shareholders were on the verge of receiving a tender offer for all remaining shares.

can issue different classes of shares; the voting power of each class is proportional to the nominal share value relative to total share capital.[22] In addition, the bylaws may limit voting rights attached to shares through a voting cap, and the voting power of each share class can be lower than its nominal share value would indicate. Companies may also issue preferred shares with priority rights to dividends, but without voting rights.[23] Up to 50 percent of registered capital may be issued as preferred shares. When the company fails to pay the preferred dividend, preferred shareholders acquire voting rights until priority dividends are paid. Preferred shareholders also have voting rights at AGMs that discuss payment of the preference dividend. Other shares with varying voting rights (e.g. founders shares) are not recognized under the law.

Information on share classes, voting rights, and voting caps are defined in the company bylaws, which are available in the Commercial Register. Companies do not have to specifically disclose this information in an annual report (other than disclosures required to meet IFRS).

The FMA is focused on supervising financial intermediaries and is not tasked with defending shareholder rights. It has no jurisdiction over parties who are not officers of registered entities.

Policy recommendations: Multiple voting shares, voting caps, and other deviations from one-share/one-vote should be clearly disclosed in the annual report.

In all countries, enforcement is now recognized as a key piece of "unfinished business" of the corporate governance reform agenda. To that end, upgrading the FMA's ability, capacity, and authority is important to corporate governance reform (and capital markets supervision generally). The FMA should increase the effort and resources devoted to implementation and oversight of corporate governance laws and regulations. The law should give the FMA the mission of defending shareholder rights, and policymakers should explore the FMA as a source of redress. FMA should be able to draft its secondary regulations. The FMA should publish all its decisions, accompanied by a brief summary for the reasoning behind them, and should be encouraged to use existing tools and authority to issue guidance notes to improve behavior and standards. The stock exchange should work with FMA to develop common disclosure requirements and an "issuer manual" for Listed and Free Market companies.

Principle IIB: Insider trading and abusive self-dealing should be prohibited.

Assessment: ***Partially observed***

Description of practice: The Securities Act prohibits insider trading. Insiders are defined by law as shareholders, employees, professionals, or other positions or offices authorized to acquire inside information. Insider information is defined as information which has not been published, but which could significantly influence the price of securities.

While insider trading is illegal, there appear to be no enforcement or surveillance programs that attempt to detect or prevent it. The FMA's scope of authority prevents it from sanctioning individuals not employed by "supervised entities" (financial institutions licensed by the FMA). There are no rules on conflicts of interest at shareholder or board meetings.

Members of the management and supervisory boards must report all dealings in shares.[24] A

[22] Securities Act, Section 180.
[23] Securities Act, Section 159.
[24] Act on Securities, Article 112. Management and supervisory board members of stock exchange traded issuers must notify the FMA,

company may make a loan or grant a right to use company property to board members or parties acting on their behalf, subject to prior supervisory board consent and on an arm's length basis.[25]

Policy recommendations: Supervisory board should have a general responsibility for approval and disclosure of related party transactions and other conflicts of interest. The FMA should develop a minimal enforcement authority and capability for insider trading.

Principle IIC: Board **m**embers and managers should be required to disclose material interests in transactions or matters affecting the corporation.

Assessment: ***Largely observed***

Description of practice: Slovak law requires significant disclosures of related party transactions as part of annual financial statements. Accounting law requires disclosure of relationships between most types of related parties, regardless of transactions, in the financial statement notes. Relationships with parties where control exists must always be disclosed. Related party transactions are normally monitored by the supervisory board. However, the legal rules on approval of related party transactions are new, fairly limited and untested.

Board members do not have additional obligations under accounting legislation to make disclosures of matters affecting the company. If the company acquires assets from shareholders for a consideration equal to at least 10 percent of registered capital, the transaction must be evaluated by a court-approved valuer; the agreement must be delivered to the Commercial Register.

Section III: Role of Stakeholders in Corporate Governance

Principle IIIA: The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.

Assessment: ***Largely observed***

Description of practice: The Slovak Commercial and Labor Codes create a favorable environment for trade unions to carry out activities at large companies. At firms with over 50 employees, employees may elect 1/3 of supervisory board members. If employee representatives and the rest of board disagree over an issue, both opinions must be reported to the AGM. Pursuant to the Labor Code, the company must discuss certain employment issues (e.g. transfer of the company or part of the company, large-scale redundancy) with the trade union. Bankruptcy trustees supervised by creditors manage bankrupt companies. The Consumer Protection Act sets out certain duties, such as prohibition of customers discrimination, fulfillment of hygienic and quality requirements, etc., which must be adhered to by companies.

Creditor rights have improved as the result of a new insolvency law. The bankruptcy law was amended in August 1999 to address liquidation issues, but other issues (like a bankruptcy process) require further reform. A new bankruptcy law is slated for adoption by Parliament this year. An advanced legal and institutional framework for secured lending was recently set up.

Principle IIIB: Where stakeholder interests are protected by law, stakeholders should have the opportunity to obtain effective redress for violation of their rights.

BSSE, and the company of changes in their share holdings within three business days. The BSSE must then publish the information. They must also disclose their holdings in other companies upon their appointment, and any changes to their holdings within seven days.

[25] Supervisory board consent is waived if a loan is given to a party under company control. Loans or advances to management and related information are disclosed. Shareholder must approve such transactions if they are executed within two years after incorporation.

Assessment: ***Largely observed***
Description of practice: The rights of stakeholders are supported through several laws. Employee disputes are dealt with by courts. The Act on Protection of the Environment requires notification of the relevant state authority of environmental damage. Creditors involved in bankruptcy proceedings have access to three bankruptcy courts, which form part of the regional courts.

Principle IIIC. The corporate governance framework should permit performance-enhancement mechanisms for stakeholder participation.

Assessment: ***Largely observed***

Description of practice: Under the Commercial Code, company bylaws establish profit sharing for employees. Bylaws and the AGM may stipulate that profits may be used for acquisition of shares by employees. Slovak law does not address share options; such plans depend on company policies. Share option plans are usually set up by foreign companies for Slovak employees.

Several company-specific corporate social responsibility codes of practice have been introduced.

Policy recommendations: Careful attention should be paid to international debates on the use/abuse of stock options; Slovakia should tailor its regulatory framework to the new consensus.

Principle IIID: Where stakeholders participate in the corporate governance process, they should have access to relevant information.

Assessment: ***Largely observed***
Description of practice: Stakeholders have no special rights to company information.

Section IV: Disclosure and Transparency

Principle IVA: The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and the governance of the company. Disclosure should include, but not be limited to, material information on: (1) The financial and operating results of the company. (2) Company objectives. (3) Major share ownership and voting rights. (4) Members of the board and key executives, and their remuneration. (5) Material foreseeable risk factors. (6) Material issues regarding employees and other stakeholders. (7) Governance structures and policies.

Assessment: ***Materially not observed***
Description of practice: Publicly-traded (and listed) firms must make periodic disclosure that includes audited and consolidated annual reports and unaudited semi-annual reports. Filings are annual to the FMA, and semi-annual to the stock exchange. Excerpts must be published in a national daily newspaper. Financial statements, with notes, must also be filed at the Commercial Register ("Collection of Documents") within 30 days of AGM approval. Information from the financial statements and annual report must be published in the official gazette (*Obchodný vestník*).

Publicly-traded companies are also required to continuously disclose - "without undue delay"- material events that might affect the share price.

The Securities Act requires disclosure of the "type, form, nature and nominal value of any securities already issued …and a description of the underlying rights." However, no other non-financial information is required in the annual report, and no specific format is stipulated. There is no required disclosure of company objectives, ownership or control (in the annual report), board remuneration, material risk factors, stakeholder issues, or governance structures. The Corporate Governance Code echoes OECD recommendations, but provides no detail or format.

Policy recommendations: The FMA (together with the BSSE) should develop a standardized annual report format in law or secondary regulation requiring the disclosure of items recommended by the OECD Principles. A specific table that reports compliance with the

Corporate Governance Code should be included. FMA should increase its review and enforcement of disclosure content. Multiple voting shares, voting caps, and other deviations from one-share/one-vote should be clearly disclosed in the annual report. Special focus should be given to reviewing the completeness of selected non-financial information (ownership disclosures and related party transactions). Sanctions (fines and civil liability) should be reviewed.

Principle IVB: Information should be prepared, audited, and disclosed in accordance with high quality standards of accounting, financial and non-financial disclosure, and audit.

Assessment: ***Partially observed***
Description of practice: Listed firms must use International Financial Reporting Standards (IFRS).[26] Free Market companies need not use IFRS, which is a major disincentive to listing. Slovak auditing standards have been developed since 1996 by the Chamber of Auditors, based on International Standards of Auditing (ISA). The Chamber is planning to transition to full adoption of ISA in 2003. In 2001, "Big 4" firms audited 40 percent of the top 200 Slovak firms.

Policy recommendations: See the Accounting and Auditing ROSC.

Principle IVC: An annual audit should be conducted by an independent auditor in order to provide an external and objective assurance on the way in which financial statements have been prepared and presented.

Assessment: ***Partially observed***
Description of practice: All publicly traded companies must be audited by an independent auditor. The management board appoints and removes the auditor. Several initiatives are underway to improve audit function independence and effectiveness.

Policy recommendations: The audit function is a major weakness of the current framework. The external auditor should be hired by and report to a more independent supervisory board. International best practice goes further and continues to focus on the importance of a strong, independent audit committee of the (supervisory) board. Work should continue on the establishment of an independent audit oversight body. See the Auditing and Accounting ROSC.

Principle IVD: Channels for disseminating information should provide for fair, timely, and cost-effective access to relevant information by users.

Assessment: ***Partially observed***
Description of practice: There is no centralized electronic information system in Slovakia. Company documents are available at the Commercial Register and its Collection of Documents.

Policy recommendations: The FMA and the BSSE should work together to develop an integrated electronic information system for statutory and public information disclosure. This system should gradually replace statutory paper filing, should allow issuers to make one disclosure that is then sent to the BSSE, the FMA, and also disclosed to the public.

Section V: The Responsibility of the Board

Principle VA: The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders.

[26] Formerly International Accounting Standards (IAS). Signaling their commitment to IFRS, the Chamber of Auditors, Ministry of Finance and Association of Slovak Accounting Professionals set up the Foundation for Development of Slovak Accounting to translate IFRS, explanatory notes and future amendments into Slovak and to serve as a resource for professionals during IFRS implementation.

Assessment: ***Partially observed***
Description of practice: Slovak law calls for a two-tier structure for joint stock companies, consisting of a management board and a supervisory board. In practice, the true governing body is the management board. The AGM typically appoints and removes directors of both boards and sets their remuneration, greatly reducing the supervisory board's power.[27] The supervisory board may sometimes play a more operational role. In this case, the supervisory board appoints and sets the management board's remuneration, as established in the charter. Although specific details are not available, board members are usually representatives of large shareholders. Members of both boards must be elected at least every five years.

Management board. The management board is the company's executive body, accountable to the AGM. It oversees day-to-day operations, and may select and replace key managers and approve their remuneration. It usually consists of executive management. The company's managing director is responsible for daily business and is usually the chairman of the board. The AGM (or supervisory board, if it appoints the management board) also selects the chairman. By law, the management board must "inform" the supervisory board at least once per year.

Supervisory board. The supervisory board exercises control over the management board and the company on behalf of shareholders, and should have at least three members. If the company has over 50 employees, employees elect and remove 1/3 of members. Supervisory board members tend to be selected through personal relationships, although more sophisticated companies use formal selection processes, interviews, and assessments of experience.

The supervisory board is fairly weak, as its main power is to refer issues to the AGM. If the board finds violations of laws or regulations, the company's charter, or the AGM's resolutions, or should it decide that the management board's operation is contrary to the company's or shareholders' interests, it can convene an EGM and "propose an agenda." Supervisory board members are entitled to participate at AGMs with a right of consultation.

Policy recommendations: The current board structure results in a corporate governance system with little accountability or oversight. The management board (Board of Directors) is the key statutory body. However, it is identical to senior management. Thus management (or the controlling shareholder) effectively appoints itself, sets its own remuneration, hires its own overseers (the supervisory board), sets their remuneration, hires the auditor, and takes a large number of discretionary actions (as outlined above) with limited shareholder influence.

This situation can be improved by significantly upgrading the supervisory board, by giving it the exclusive power to appoint the management board, or at least nominate management board members and set their remuneration, and to appoint the auditor. Policymakers can also explore statutory requirements to create committees of the supervisory board, especially an independent audit committee. Fundamental changes of this magnitude should probably be made in the Commercial Code, and not in the listing rules or the Corporate Governance Code.

Principle VB: Where board decisions may affect different shareholder groups differently, the board should treat all shareholders fairly.

Assessment: ***Largely observed***
Description of practice: Both boards are accountable to the AGM. Therefore, in theory, both

[27] In Germany and other countries with a two-tiered board structure, the supervisory board appoints the management board.

boards have a legal duty to all and not to any one shareholder. In practice, large shareholders appoint directors who are connected to them and who defend their specific interests on the board.

Board members are obliged to "…perform their activities with due deliberation," which includes the duty to perform with professional care and in compliance with the company's and all its shareholders' interests. In particular, they must maintain confidentiality, and may not, in performing their duties, give preference to their own interests, the interests of some shareholders or the interests of third persons, over the company's interests. Unless the bylaws provide for other limitations, management board members may not enter into business deals in the company's line of business, transfer business deals to third parties, or serve on the board of companies in a similar business, unless the company has an ownership interest. Since these rules were introduced into law in January 2002, they have not been tested in the courts.

Members of the boards who have infringed their duties in the performance of their activities are jointly and severally liable for damages that they caused to the company. Liability is unlimited. In particular they are liable for damages occurring to the company through:

- providing satisfaction to shareholders in conflict with the Commercial Code;
- subscribing, obtaining or accepting as contribution their own shares or shares of another company in conflict with the Commercial Code;
- issuing shares in conflict with the Commercial Code.

It is possible to obtain liability insurance for board members, but its cost is fairly prohibitive.

Policy recommendations: See Principle VA and VE.

Principle VC: The board should ensure compliance with applicable law and take into account the interests of stakeholders.

Assessment: ***Largely observed***

Description of practice: Under the Commercial Code, the supervisory board is bound to monitor compliance with law, company articles, and AGM instructions. It monitors and inspects company activities and can convene a general meeting when the law is breached (or when company interests require). It proposes to the AGM measures to remedy breaches. Employee seats on the supervisory board allow employee access to information and protect their interests. There is no practice of appointing "company secretaries."

Policy recommendations: See Principle VA and VE.

Principle VD: The board should fulfill certain key functions, including (1) Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance and overseeing major capital expenditures, acquisitions and divestitures. (2) Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning. (3) Reviewing key executive and board remunerations, and ensuring a formal and transparent board nomination process. (4) Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions. (5) Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law. (6) Monitoring the effectiveness of the governance practices under which it operates and making changes as needed. (7) Overseeing the process of disclosure and communications.

Assessment: ***Materially not observed***

Description of practice: The board's general duties are laid out in the Commercial Code. The Corporate Governance Code repeats the OECD Principles but does not establish specific requirements. The following general observations can be made about board responsibility:

1) Responsibility for strategic planning is diffuse in theory, concentrating authority at the management board in practice. The management board shares the responsibility to set strategy with the AGM, which may reserve the right to make strategic decisions.

2) Company risk policy is regulated only for financial institutions. There are no specific legal provisions on the board's duties on annual budgets, corporate performance, or business plans.
3) In theory, the boards play little role in succession planning; the AGM typically appoints members of both boards. Formally, boards influence the appointment of key executives only through "consultation" at the AGM. However, since the management board sets the agenda, it plays the only real role in its own succession planning.
4) The AGM sets remuneration for members of both boards. However, the AGM is not likely to be able to establish a transparent nomination process, and the real work will be done by the management board, which will nominate new supervisory board members on the agenda.
5) The AGM may not make a decision unless it reviews the supervisory board's written opinion, and the supervisory board relies on the input of the management board (which must report on company performance to the supervisory board at least quarterly).
6) In practice, the supervisory board's weakness leaves the management board in charge of many governance functions, with little oversight.
7) Liability for non-disclosure of information has not been clearly established.

The Corporate Governance Code does address a number of board issues.[28] The listing rules require listed companies to sign on to the Code on a "comply or explain" basis. However, its influence is unclear, and the BSSE's "comply or explain" requirements are easy to evade. Without a formal verification exercise, there is no guarantee that it will lead to real improvements.

Policy recommendations: The Corporate Governance Code is a good start, but may be both too ambitious and vague to be of practical assistance in advancing corporate governance reform. However, as the BSSE has only recently been able to agree on the amendment of its listing rules, a substantial revision of the Code at this time might be premature. Implementation is now key; a detailed manual on board issues and specific recommendations should be developed, perhaps in conjunction with a new Institute of Directors or similar organization. In addition, a concerted outreach effort should be made to involve the Slovak corporate sector, including major issuers We recommend that any future efforts to enhance the Code be refocused on the Code's Principle I (the board issues), that the board recommendations clearly relate to the supervisory board (instead of saying "the board"), that the Code provide additional detail as to what supervisory boards must do to meet their fiduciary duties of due care, due diligence and actions in the company's interests, and that independence requirements be less ambitious at the beginning.[29]

Principle VE: The board should be able to exercise objective judgment on corporate affairs independent, in particular, from management: (1) boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgment to tasks where there is a potential for conflict of interest. Examples of such key responsibilities are financial reporting, nomination, and executive and board remuneration. (2) board members should devote sufficient time to their responsibilities.

Assessment: ***Materially not observed***

Description of practice: There are no regulations that govern director independence, other than the requirement that members of the management board may not be supervisory board members in the same company. Audit and other board committees are not required under Slovak Law.

[28] The Slovak Corporate Governance Code's Principle I suggests that the management board should meet ideally at least monthly, and the supervisory board should meet at least ten times a year. The management and supervisory boards should have a formal schedule of matters specifically reserved to them for decision. The management board should undertake all key functions in the management of the company and the supervisory board should effectively supervise such functions.

[29] It is also probably too ambitious to request audit, nomination, and remuneration "board committees." There is no strong consensus on the wisdom of supervisory board committees. However, international best practice continues to focus on the importance of a strong, independent audit committee of the (supervisory) board.

There is no limit to the number of boards on which directors may serve, no requirements for the board to meet regularly, and no requirements for board members to disclose their attendance at meetings. No rules govern the conduct of directors who have interests in particular transactions.

The Corporate Governance Code appears to recommend full supervisory board independence.

Policy recommendations: In line with international corporate governance best practice, independence requirements should be developed for the supervisory boards of listed companies. The 100 percent independence recommendation in the Code is probably too ambitious. A minimum of 25 percent of the supervisory board should be independent. The auditor should be appointed by the more-independent supervisory board. The supervisory board should nominate board appointments (if it does not appoint the management board), set board remuneration, and provide overall management of the governance of the company. If it is not possible to insert independence requirements directly into the law (for publicly-traded companies only), the recommendations should be made in a refocused Corporate Governance Code.

To comply with the OECD Principles, it is strongly recommended that an Institute of Directors or similar director training organization be created, with support from the BSSE, government, and private sector. A strong Institute of Directors is now considered essential to upgrading a country's corporate governance. As in many other countries now establishing similar Institutes, director training will provide directors with an understanding of their role and responsibilities, and educate independent directors in financial, business, and industry practices. In Slovakia, the Institute will become an important source of corporate governance reform in the future.

Principle VF: In order to fulfill their responsibilities, board members should have access to accurate, relevant and timely information.

Assessment: ***Observed***
Description of practice: The supervisory board is "…entitled to inspect any document and report concerning the company's activities." Supervisory board members may ask the management board and senior employees for information and must receive access to company books. There is no explicit right for supervisory board members to engage independent professional expertise.

IV. SUMMARY OF POLICY RECOMMENDATIONS

This section sets out recommendations to improve listed companies' compliance with the OECD Principles. The next step is to develop a detailed action plan, to be formulated in cooperation with the Slovak authorities and in consultation with the private sector and other stakeholders.

Legislative reform: Annex B details the policy recommendations developed above. Since the Corporate Governance Code's drafting may also result in legislative recommendations, it is desirable for the legislative process to wait for the conclusion of the code process. *Priority:* ***high***

Institutional strengthening: Work to increase listings and protect shareholder rights by working with Free Market companies to increase number of listed companies. *Priority:* ***medium***

Voluntary/private initiatives: A strong "Institute of Directors" is now considered essential to upgrading a country's corporate governance. Director training will provide directors with an understanding of their role and responsibilities, and educate independent directors in financial, business, and industry practices. In Slovakia, the Institute could become an important source of corporate governance reform in the future. *Priority:* ***high***

Annex A: Summary of Observance of OECD Corporate Governance Principles

PRINCIPLE		O	LO	PO	MO	NO	Comment
I. THE RIGHTS OF SHAREHOLDERS							
IA	Basic shareholder rights			X			• Basic shareholder registry in place, but full internationally recognized Central Depository in formation. • Listed (but not public) shares freely transferable.
IB	Rights to participate in fundamental decisions.			X			• Some important decisions may require supermajority vote of 66 percent of shareholders present. • No approval for large transactions.
IC	Shareholders AGM rights		X				• New Commercial Code very complete. • No quorum requirement. • 30 days notice; 5 percent shareholders can force agenda item.
ID	Disproportionate control disclosure			X			• Immediate disclosure thresholds: 5, 10 20, 33, 50 and 60 percent. • Shareholder agreements not disclosed. • Delisting requires Sh resolution, no squeeze-out provisions.
IE	Control arrangements should be allowed to function.			X			• Immediate disclosure thresholds: 5, 10 20, 33, 50, 60 percent. • 5 percent shareholders must be disclosed in annual report.
IF	Cost/benefit to voting				X		• Almost no institutional ownership of Slovak shares.
II. EQUITABLE TREATMENT OF SHAREHOLDERS							
IIA	All shareholders should be treated equally		X				• Voting caps, multiple voting rights possible, but very rare. • Voting rights available at Commercial Register. • Much improved but still-difficult shareholder redress. • FMA not a source of redress.
IIB	Prohibit insider trading			X			• Basic rule in place. • No apparent enforcement ability or capability. • No approval process for RPT/other conflict of interest.
IIC	Board/Mgrs. disclose interests		X				• High disclosure of RPT under IFRS. • No immediate disclosure of RPT.
III. ROLE OF STAKEHOLDERS IN CORPORATE GOVERNANCE							
IIIA	Stakeholder rights respected		X				• 1/3 of supervisory board seats reserved for employees a companies with more than 50 employees.
IIIB	Redress for violation of rights		X				NA
IIIC	Performance enhancement		X				• Employees can own shares. • No laws or practice of owning options.
IIID	Access to information		X				• Based on public disclosure; see Section IV below.
IV. DISCLOSURE AND TRANSPARENCY							
IVA	Disclosure standards				X		• No standardized annual reporting format. • Limited mandatory non-financial disclosure (Code only).
IVB	Standards of accounting & audit			X			• Listed companies must use IFRS from 1/1/2003. • Too early to assess compliance.
IVC	Independent audit annually			X			• No independent audit committee-type structure • Most listed companies use Big 4 (and ISA). • Review/oversight body being created.
IVD	Fair & timely dissemination			X			• Info available from company, newspaper, Commercial Register. • No electronic information system for immediate disclosure.
V. RESPONSIBILITIES OF THE BOARD							
VA	Acts with due diligence, care			X			• Two-tier board (one-tier optional), but few active sup. boards. • Supervisory role poorly defined
VB	Treat all shareholders fairly		X				• Fair treatment principle often violated in practice. • No barriers to preferential treatment.
VC	Ensure compliance w/ law		X				• Board required to comply with all legal requirements.
VD	The board should fulfill certain key functions				X		• Board and management nomination and remuneration left to "AGM," effectively to management board. • Unclear liability for non-disclosure of information.
VE	The board should be able to exercise objective judgment				X		• Two-tier board means supervisory board is non-executive. • No independence requirements (except in Code).
VF	Access to information	X					• Law grants access to information. • No specific access to special expertise.

Annex B: Summary of Policy Recommendations

I. THE RIGHTS OF SHAREHOLDERS		
IA	Basic shareholder rights	• All shares of public companies should be freely transferable (not just listed shares). • Focus on establishment of Central Depository. • Efforts should be made to reach out to international custodians and sub-custodians, so that the new Central Depository can better serve the needs of international portfolio investors. • Future revisions to the law should consider establishing a "date of record" for listed companies so that shares do not have to be blocked.
IB	Rights to participate in fundamental decisions.	• "Large transactions" should be explicitly defined in the Commercial Code • Shareholder approval (with supermajority) should be required.
IC	Shareholders AGM rights	• Policymakers should carefully monitor any so-called "abuses" of minority shareholder rights, and balance the potential for abuse against the protections for small shareholders. • The lack of a quorum requirement is unusual for a transition country, and also raises the possibility of abuse, especially if meetings are not properly announced. • We would recommend the re-imposition of a relatively low quorum (30 percent) for first meetings. • The planned information systems under development by the BSSE (and the FMA) should republish meeting notifications as material events. The training of judges, coordinated by the Ministry of Justice, should also help to protect large shareholders against the abuse of the 5 percent provisions.
ID	Disproportionate control disclosure	• Shareholder agreements should be disclosed, both as material events and in the annual report. • Crossing ownership disclosure thresholds should also be considered as material events and should be disclosed "without undue delay" (rather than three days), through a new, unified information disclosure system (see Principle IVD below).
IE	Control arrangements should be allowed to function.	• A minimum price of 50 percent of book value is quite low. Given the importance of mandatory tender offers to Slovakia this minimum offer price may hurt small shareholders. • A review of takeover provisions should be carried out at the conclusion of the Slovnaft case. • In addition, to speed the consolidation and delisting of the Free Market companies, policymakers should explore a "squeeze-out" rule, with a high threshold (e.g. if a shareholder acquires 95 percent or even 99 percent of shares, he should be allowed to acquire all remaining shares for a certain price). FMA (through the Ministry of Finance) should issue detailed squeeze out valuation procedures.
IF	Cost/benefit to voting	• Pension funds should be obliged by regulation to disclose their voting policy. • Voting should be made as easy as possible. • Awareness of successful international experiences of shareholder activism should be raised. Those redrafting a Corporate Governance Code may also want to consider the question of investor responsibility.
II. EQUITABLE TREATMENT OF SHAREHOLDERS		
IIA	All shareholders should be treated equally	• Multiple voting shares, voting caps, and other deviations from one-share/one-vote should be clearly disclosed in the annual report. • The law should give the FMA the mission of defending shareholder rights, and policymakers should explore the FMA as a source of redress. • FMA should have the ability to draft its secondary regulations. The FMA should publish all its decisions, accompanied by a brief summary for the reasoning behind the decisions. • The stock exchange should work with FMA to develop common disclosure requirements and "issuer manual" for listed and free market companies.
IIB	Prohibit insider trading	• Supervisory board should have a general responsibility for approval and disclosure of related party transactions and other conflicts of interest. • The FMA should develop a minimal enforcement authority and capability for insider trading.
IIC	Board/Mgrs. disclose interests	NA
III. ROLE OF STAKEHOLDERS IN CORPORATE GOVERNANCE		
IIIA	Stakeholder rights respected	NA
IIIB	Redress for violation of rights	NA
IIIC	Performance enhancement	• Careful attention should be paid to international debates on the use/abuse of stock options; Slovakia should tailor its regulatory framework to the new consensus.
IIID	Access to information	NA
IV. DISCLOSURE AND TRANSPARENCY		
IVA	Disclosure standards	• The FMA (in conjunction with the BSSE) should develop an required annual report format in law or secondary regulation that requires the disclosure of the items recommended by the

		law or secondary regulation that requires the disclosure of the items recommended by the OECD Principles. A specific table that reports compliance with a redrafted and refocused Corporate Governance Code should be included. FMA should increase its review and enforcement of disclosure content. Special focus should be given to the reviewing the completeness of selected non-financial information (ownership disclosures and related party transactions). Sanctions (fines and civil liability) should be reviewed.
IVB	Standards of accounting & audit	• See the Accounting and Auditing ROSC.
IVC	Independent audit annually	• The audit function is a major weakness of the current framework. The external auditor should be hired by and report to a more independent supervisory board. • International best practice goes further and continues to focus on the importance of a strong, independent audit committee of the (supervisory) board. Work should continue on the establishment of an independent audit oversight body. • See the Auditing and Accounting ROSC.
IVD	Fair & timely dissemination	• The FMA and the BSSE should work together to develop an integrated electronic information system for statutory and public information disclosure. This system should gradually replace statutory paper filing, should allow issuers to make one disclosure that is then sent to the BSSE, the FMA, and also disclosed to the public.
V. RESPONSIBILITIES OF THE BOARD		
VA	Acts with due diligence, care	• The current board structure results in a corporate governance system with little accountability or oversight. The management board (Board of Directors) is the key statutory body. However, it is identical to senior management. Thus management (or the controlling shareholder) effectively appoints itself, sets its own remuneration, hires its own overseers (the supervisory board), sets their remuneration, hires the auditor, and takes a large number of discretionary actions (as outlined above) with limited shareholder influence. • This situation can be improved by significantly upgrading the supervisory board, by giving it the exclusive power to appoint the management board, or at least to nominate management board members and set their remuneration, and to appoint the auditor. Policymakers can also explore statutory requirements to create committees of the supervisory board, especially an independent audit committee. Fundamental changes of this magnitude should probably be made in the Commercial Code, and not in the listing rules, or the Corporate Governance Code. See Principle VA and VE.
VB	Treat all shareholders fairly	• See Principle VA and VE.
VC	Ensure compliance w/ law	• See Principle VA and VE.
VD	The board should fulfill certain key functions	• The Corporate Governance Code is a good start, but may be too ambitious and too vague to be of practical assistance in pushing forward corporate governance reform. We would recommend that the Code be refocused on Principle 1 (the board issues), that the board recommendations clearly relate to the supervisory board (instead of saying “the board”), and that independence requirements be less ambitious at first. In addition, a concerted effort should be made to involve the Slovak corporate sector, including major issuers.
VE	The board should be able to exercise objective judgment	• Independence requirements should be developed for the supervisory boards of listed companies. The 100 percent independence recommendation included in the Code is probably too ambitious. A minimum of 25 percent of the supervisory board should be independent. • The auditor should be appointed by the more-independent supervisory board. • The supervisory board should nominate board appointments (if it does not appoint the management board), set board remuneration, and provide overall management of the governance of the company. • If it is not possible to insert independence requirements directly into the law (for public companies only), the recommendations should be made in a refocused Corporate Governance Code. • It is strongly recommended that an Institute of Directors or similar director training organization be created, with support from the BSSE, government, and private sector. A strong Institute of Directors is now considered essential to upgrading a country’s corporate governance. As in many other countries now establishing similar institutes, director training will provide directors with an understanding of their role and responsibilities, and educate independent directors in financial, business, and industry practices. In Slovakia, the Institute will become an important source of corporate governance reform in the future.
VF	Access to information	NA

ANNEX C: MARKETS AND PARTICIPANTS

As in all transition countries, the privatization program of the early 1990s established many of the basic characteristics of the equity market in Slovakia. The coupon privatization program led to as many as 1,000 companies listed and traded on two stock exchanges. Listing and trading on public markets were obligatory, even though many companies were more naturally "private" companies. In the period 1994-98, "direct selling" at "symbolic prices" did not involve the stock exchange. At no time in Slovakia's privatization history were major companies privatized directly on the stock exchange. Finally, until 2000, the market was lightly regulated, and tarred by scandals involving privatization investment funds and more recently, unlicensed funds.

As a result, the equity market in Slovakia is notable for its small size and low liquidity. The equity market in Slovakia is divided into two basic tiers: the Listed Market and the Free Market. Free Market companies are mostly legacies of the coupon privatization program, rarely trade, and have lighter information disclosure requirements. Market capitalization of the ten listed companies at the end of 2002 was 3.4 percent of GDP.[1] The 495 share issues traded on the Free Market (unlisted) add another 6.4 percent of GDP, to a total of 9.8 percent. However, the Free Market includes 136 issues that have never formally traded on the exchange (so called "nominal" companies). The number of listed companies and issues has been declining over time. In 2002, over 300 issues were removed from the Free Market when they did not meet even their limited information disclosure requirements.

At the conclusion of privatization, SCP records indicated that there were about three million shareholders. Today, after consolidation, that figure has been reduced to about 1.5 million.

Slovakia's capital markets are small and shallow relative to those of many of its neighbors. Market capitalization, value traded, and turnover relative to market capitalization are lower than those of comparison countries, based on standard market indicators.

Table 1: Slovakia and Selected ECA Countries: 2001 Equity Market Statistics

	Market Capitalization		Value Traded	Turnover	# of Listed	S&P/IFC Investable Index % change in
	USD	% of GDP	% of GDP	Ratio	Companies	price index
Slovakia	**538**	**2.6**	**2.6**	**17.7**	**844**	**21.3**
Hungary	10,367	19.8	9.4	3.8	57	-10.3
Czech Republic	9,151	16.2	6.2	3.7	94	-13.7
Croatia	3,089	15.6	1.0	0.3	62	-3.5
Poland	25,931	14.9	6.1	1.9	230	-24.9
Slovenia	2,778	14.8	4.1	3.4	38	2.0
Bulgaria	506	4.0	0.6	1.0	399	-7.5
Romania	1,114	2.8	0.3	0.8	60	-25.3
Macedonia, FYR	2	0.1	1.3	..	2	..

Source: World Development Indicators. All figures for year-end 2001. Value traded and turnover are for calendar year 2001.

[1] Based on BSSE market capitalization of listed market and preliminary GDP (available as of 8/4/2003).

The ownership of the listed sector is highly concentrated. A review of many of the larger listed companies suggests that many large "blue chips" can be expected to delist in the near future.

- Slovenska Poistovna, the major insurance company, has already been delisted in 2003, after a tender offer for all remaining shares was made by Allianz;
- OTP Bank is more than 95 percent controlled by OTP Bank (Hungary);
- Slovnaft shareholders were on the verge of receiving a tender offer for all remaining shares in early April 2003;
- VÚB, almost 95 percent owned by the Italian bank Entessa, which is rumored to be considering a buyout of remaining shareholders that would lead to a delisting.

Based on this informal analysis of only four companies, more than ¾ of the market capitalization at the end of 2002 could be expected to delist in 2003.

Table 2: Ownership of Selected Listed Companies in Slovakia, Year-end 2002

Company	Major Owners	Market Cap End of 2002	Percent of Listed Market Cap	Percent held by large / strategic investors
Biotika, a.s.	G.V. Pharma, a.s. 42.2 percent - foreign investor, VÚB, a.s. 22.7 percent, Moorgate Securities Ltd. 7 percent - foreign investor.	155.0	0.4	71.9
Istrokapitál, a.s.	Projekting Ružomberok, a.s. 20.96 percent – domestic investor, JCG 15.73 percent, Folyn 6.8 percent, Kierra 6.48 percent, Anton Siekel 11.88 percent		N/A	61.9
Nafta, a.s. Gbely	SPP Bratislava 55.9 percent - investor, RWE Gas Dortmund 40.03 percent - foreign investor	3,492.7	9.5	95.9
OTP Banka Slovensko, a.s.	OTP Bank RT. 95.74 percent - foreign investor	644.9	1.8	95.7
Slovakofarma, a.s.	Major shareholder is S.L. Pharma Holding GmBH – foreign investor	1,728.4	4.7	-
SES Tlmače, a.s.	Rawin, a.s. 29.59 percent, Devín Banka, a.s. 15.01 percent, K.S.K. spol s.r.o. 14.87 percent , Pecotin Investments, Ltd. (Cyprus) 10.71 percent.		N/A	70.2
Slovnaft, a.s.	MOL Rt., a.s. 36.2 percent, Slovintegra 28.7 percent, EBRD 8.4 percent, Slovbena a.s. 2.9 percent, Slovnaft CV III 2.2 percent.	20,609.2	56.2	79.4
VSŽ, a.s. Košice	Penta Group 31.8 percent, FNM 16 percent, Bank Austria 10 percent,	1,863.8	5.1	57.8
VÚB, a.s.	IntesaBci 94.47 percent - foreign investor	3,776.3	10.3	94.5
Slovenska Poistovna	Allianz working to acquire 100 percent - delisted in 2003	3,217.5	8.8	100.0
Total market capitalization for selected companies		35,487.8	96.8	
Total market capitalization of all Listed Companies		36,647.6	100.0	

Source: Bratislava Stock Exchange Factbook 2002, World Bank estimates of ownership.

Annex D: Corporate Governance Institutions

Bratislava Stock Exchange

The Bratislava Stock Exchange (BSSE) was founded in 1991 and began operations in 1993. It is today the only licensed exchange in Slovakia.

The BSSE is a joint-stock company operating on the basis of a license from the Financial Market Authority. The license entitles the BSSE to organize trading on the spot market. Shareholders include the National Property Fund and the largest Slovak financial institutions, investment, brokerage and insurance companies. It is governed by management and supervisory boards. Trading, listing, and membership committees also participate in the exchange's governance:

BSSE membership is approved by the Executive Board, based on an application from the applicant and subsequent recommendations of the Membership Committee, which acts as an advisory body of the BSSE Board of Directors. Membership can only be granted to securities dealers, asset-management companies, and foreign securities dealers who meet terms set by the law and Stock Exchange Rules. In addition, the National Bank of Slovakia is entitled to directly trade on the BSSE. Others must access the exchange through a member. All members have equal rights and obligations. Regular members have the right to be represented on committees and act as market makers for selected issues. They also have the right to introduce issues to the stock exchange markets and act as tutors on the new listed market. A regular member must pay a one-time entry fee for stock exchange membership and annual membership fees. A temporary member does not have these rights and is only obligated to pay an annual membership fee.

The stock exchange organizes trading on two markets: the "listed market" and "free market." The listed market is divided into three categories: the main listed, parallel listed, and new listed markets. The free market is open to securities issued in compliance with the generally binding legal regulations. For securities to be admitted to the free market, the BSSE only requires compliance with conditions stipulated by law. Issuers submit an application for admission and a Listing Prospectus. The BSSE may admit a security to the free market without the application.

An application for admission of a security to any of the tiers is submitted by the issuer. Decisions on the admission to the market of listed securities are made by the Listing Committee.

Table 3: Listing Requirements for the Bratislava Stock Exchange

	Main Listed Market	Parallel Listed Market	New Listed Market	Free Market
Minimum period of activity (years)	3	2	1	Compliance with the law
Minimum market capitalization (million Sk)	500	100	None	
Minimum part held by the public (%)	25	15	25	
Minimum number of owners of issue	100	None	None	
Minimum volume of issue (million Sk)	None	None	10	
Minimum number of shares in issue	None	None	10,000	

Note: Shares are not be considered as "publicly held" if they are owned by 5 percent or greater shareholders.

Issues admitted to the new listed market must meet an additional requirement of a minimum of 10,000 shares. These issues must have a "tutor" (a member that helps the issuer with introduction to the market and oversees the fulfillment of strict disclosure obligations to the BSSE and the public) and a market maker. The original shareholders must bind themselves to keep their shares in the company for a minimum period of one year.

Government bonds can be listed and traded on the main listed market without a prospectus or review by the listing committee.

Market capitalization of the ten listed companies at the end of 2002 was 3.4 percent of GDP. Most trading occurs in five companies. Five companies are in the manufacturing sector, four in financial services and IT, and one in energy. Two companies are listed abroad.[1] The 495 share issues traded on the Free Market (unlisted) add another 6.4 percent of GDP, to a total of 9.8 percent. However, the Free Market includes 136 issues that have never formally traded on the exchange (so called “nominal” companies). The number of listed companies and issues has been gradually declining over time. In 2002, over 300 issues were removed from the Free Market when they did not meet even their limited information disclosure requirements.

Listed issuers must continuously inform the stock exchange of any important circumstances that could have an effect on the trading of their issues. Economic results must be submitted to the stock exchange quarterly by the issuers from the main listed market and new listed market; the issuers from the parallel listed market must submit their economic results semi-annually. The stock exchange ensures that the results are published in domestic periodicals within a shortest possible time and provides them to information agencies operating on a global basis, so that they are available to potential investors in the same extent and at the same time. Issuers whose securities are traded on the free market inform the stock exchange in the extent stipulated by the Act on Securities and Investment Services.

The stock exchange informs the Financial Market Authority of any failure to fulfill issuer obligations.

The trading of securities runs daily by means of the Electronic Stock Exchange Trading System (EBOS). The system is based on active placing of orders to buy and orders to sell into a computer by each member individually. The members place the orders to buy and orders to sell by means of EBOS workstations, which are located at their offices and have an on-line connection to the stock exchange's central computer. Members are allowed to close electronic order book transactions, block transactions, negotiated deals and repo transactions. They can also enter take-over bids.

In 1995, the BSSE Stock Exchange Chamber established the Stock Exchange Arbitration Court (SEAC). Its main task is to resolve disputes over transactions, both on and off the stock exchange. The SEAC is a permanent and independent body. Proceedings can start on the condition that both parties have a free will to discuss the given dispute in front of the SEAC, which they confirm by signing an arbitration agreement.

[1] Slovakofarma GDRs trade on the Luxembourg Stock Exchange, and Nafta Gbely shares trade on the Frankfurt Stock Exchange.

The BSSE carries out the clearing and settlement of reported transactions. The clearing and settlement of electronic order book transactions is carried out on a relatively informal "delivery-versus- payment" basis (DVP) T+3 basis. Block trades (negotiated trades) and repo transactions are settled according by member request, for securities only.

On T+2, the stock exchange sends instructions to the Clearing Center of the National Bank of Slovakia (CC NBS) to debit the clearing accounts of banks of the members to whom, according to the trading results, a financial obligation has arisen in favor of the stock exchange's account kept at ING Bank. BSSE also informs ING Bank of the sum and structure of payments to be credited to BSSE's account. The stock exchange also instructs the Securities Center to block securities in client accounts. At the end of T+2, the stock exchange compares the balance of funds in its account, and the balance of blocked securities at the Securities Center. If all conditions for the clearing and settlement of transactions are met, each transaction is marked "perfect" and is settled on the next day. If any deficiencies are found in the fulfillment of a transaction, the transaction is marked "suspended" and the deficiency is resolved in compliance with the rules in effect.

On T+3, the stock exchange places orders in the CC NBS to make payments from BSSE's account to the accounts of the banks of selling members. At the same time, the stock exchange places in the Securities Center orders to register a transfer of securities from the account of the selling client to the account of the buying client.

A Guarantee Fund reduces the risk of financial settlement. The Guarantee Fund enables investors who sell securities to receive financial compensation, even if the counter-party is not able to fulfill its financial liability in time. All stock exchange members participate in the Guarantee Fund by paying an initial fee and a floating amount, which is represented by an agreed percentage of the average daily amount of electronic order book transactions and block transactions closed by a BSSE member in the previous month. Neither negotiated deals nor repo transactions are subject to financial coverage by the resources of the Guarantee Fund.

In compliance with provisions of the Act on Securities and Investment Services, the clearing and settlement of transactions in the future will be provided by a Central Depository as a licensed entity. The Securities Center was obligated to apply to the Financial Market Authority for a license of central depository by the end of the year 2002. The stock exchange will provide clearing services until the license is granted to the first Central Depository.

All stock exchange members are subject to inspection by the Bratislava stock exchange. The focus of inspection is on the fulfillment of membership criteria (i.e. qualification in terms of technical equipment and an applicant's eligibility for BSSE membership) as well as on each member's compliance with the stock exchange Rules and generally binding regulations.

Financial Market Authority (FMA)

The Financial Market Authority (*Úrad pre finančný trh*, or FMA) was established by the Act No 96/2002 “Act on the Financial Market Authority” on 1 April 2002. The FMA is responsible for supervising capital market and insurance institutions (including stock exchanges, Central Depositories, custodians, investment funds, and insurance companies).

Until November 2000 the regulation and supervision of the capital markets in Slovakia was carried out by a department the Ministry of Finance (MOF). The FMA was established on

November 1, 2000, as the body of state administration responsible for the capital markets and insurance sector which it took over from the MOF. The responsibilities of the FMA are supervisory and enforcement but it does not have regulation making power, which was retained by the Ministry.

The FMA was granted powers of monitoring the capital markets and insurance sector. Its mandate includes deciding about rights and interests protected by law and duties of legal entities and natural persons in the field of capital markets and insurance, maintaining and publishing lists of licenses granted to market participants and enforcement actions taken, cooperating with the Ministry of Finance in formulating and implementing financial policy and cooperating with foreign supervisory authorities for the capital market and the insurance industry. The new FMA Act (in effect since April 1, 2002) allows the FMA to collect its own revenues in addition to revenues from the state budget. It further explicitly provides that the FMA conducts supervision impartially and independently. This increases the financial independence of the FMA and makes explicit the statutory recognition of operational independence.

The governing bodies of the FMA includes a Council and a Supervisory Committee. The Council has five members, including a Chairman, two Council Vice-Chairmen (representing the capital markets and insurance sectors), and other two members, who are not employees of the FMA. Council members serve for five years. The Supervisory Committee also has five members, who serve for six years. The members of the Supervisory Committee are appointed and recalled by the Government.

The FMA capital market section has oversight over stock exchange and publicly listed share and bond issues. It appears to have relatively strong authority over supervised and licensed entities (financial institutions), but limited authority over securities issuers. It does not appear to have the power to sanction individuals who are not employees of supervised entities, and has no general responsibility for protecting the rights of shareholders.

The FMA has about 90 employees, is independent of government salary and employment scales and is free to set its own employment terms. The integration of the FMA with the banking supervision agency to create a unified supervision agency is currently under discussion, with a target date of 2005.

Central Securities Depository

The Securities Center (SCP) performs all shareholder recordkeeping for public companies in Slovakia. The SCP was established in 1992 and began servicing the coupon privatization program in 1993. The SCP is 100 percent state-owned by the Ministry of Finance. The SCP is a central registry, and interacts directly with registered shareholders. Evidence of share ownership is a record in the respective registry of the SCP. The SCP moves shares at the order of the stock exchange, but carries out no other clearing and settlement functions. All clearing and settlement remains at the stock exchange.

The Commercial Code allows shares to exist in both “certificated” and “book-entry” form. Listed companies are all held in book-entry form. Shareholder lists for both forms must be maintained at the SCP. As of the end of December 2002, 1723 issuers were kept in book-entry forms, along with 2077 issuers in certificated form. All transfers are, in theory, supposed to be registered at the SCP, but management believes that the owners and management of small companies are

maintaining informal registers themselves. At the conclusion of voucher privatization SCP records indicated that there are approximately three million shareholders. Today, after consolidation, that figure has been reduced to about 1.5 million.

All clearing and settlement is handled by the stock exchange. The BSSE sends orders to the Central Bank to exchange funds, and to the SCP to exchange shares. A large number of trades are currently reported manually to the SCP. According to SCP data, in 2002, 23,357 trades were reported "off-exchange", and 33,500 transactions were reported through the exchange. This situation can be expected to continue in the near future, when the requirement that trades in listed companies be reported through the stock exchange is removed (after June 30, 2003).

For investment funds, accounts are currently established in the name of the fund. "Custodians" appear to provide oversight over the securities account, but are not directly responsible for administration.

The Securities Act clearly intends the Securities Center to become licensed as a "Central Depository" under the law. According to this design, Slovakia will move in the direction of a "two-level" shareholder record keeping system. To access the central register, each shareholder will be required to work through a "member" (investment service provider) of the licensed Central Depository. Each investment service provider will work with clients, and interact withy the Central Depository on behalf shareholders. tracks the ownership positions of its clients, and provides individual securities accounts. Custodians (as members) will play a much larger role in the future for investment funds and other collective investment vehicles.

Commercial Register

The Commercial Register is a centralized institution that maintains company information. The Commercial Register is maintained by one of eight District Courts. Information maintained by the Register includes the foundation deed, agreements of the members of the Board of Directors with the company on their appointment, trade licenses, Articles of Association, certain General Meeting minutes, financial statements and annual reports. Copies of key documents be viewed in the Register's "Collection of Documents." The public has full access to the Commercial Register. Some information is now available on the Internet (www.orsr.sk) most documents must be reviewed in person in the Collection of Documents. The costs of viewing or copying the information are usually minimal (up to a few hundred Slovak crowns, depending on complexity of the request). A copy of one page from the Collection of Documents costs 10 Slovak crowns.

The Ministry of Justice is preparing an Act on the Companies Register, which will replace the articles in the Commercial Code and the Civil Court Order. The new act will substantially change the principle of registration—a higher court officer will only check formalities and will register an entity within five days. As of mid 2005 it will not be necessary to communicate with the court in person—all registrations and changes will be made in electronic form and be guaranteed.

ANNEX E: LEGAL OVERVIEW

Overview of Legal Framework

Slovak law is based on the Civil Law tradition. Corporate governance in Slovakia is governed in large part by four major laws:

- Act. No. 513/1991 Commercial Code (CS)
- Act. No. 566/2001 Coll. Securities Act (LS)
- Act. No. 429/2002 Coll. Law on Stock Exchange
- Act. No. 96/2002 Coll. Law on Supervision over the Financial Market

The corporate forms allowed under the Commercial Code are as follows:

- A partnership *(verejná obchodná spoločnosť)* is an entity in which two or more persons carry on business under the common business name and are jointly and severally liable for the obligations of the partnership with all their property.
- A co-operative *(družstvo)* is a community of members (the number of which is not predetermined) and usually is established either to undertake business, or to satisfy the economic, social or other needs of its members. A co-operative shall have not less than five members. This does not apply if 2 or more members are legal entities. A co-operative is a legal entity. It is liable for a breach of its obligations with all its property. The registered stock capital must not be less than 50.000 Slovak crowns.
- A limited partnership *(komanditná spoločnosť)* is an entity in which one or more partners bear limited liability for the partnership's obligations up to their outstanding pledged contribution(s) registered in the Companies Register (limited partners) and one or more partners bear unlimited liability with their entire property (general partners).
- A limited liability company *(spoločnosť s ručením obmedzeným)* is a company, stock capital of which is made up of predetermined contributions by its members. The minimum stock capital of the company is 200.000 Slovak crowns. A limited liability company may be established by one individual or legal entity. The maximum number of members of a limited liability company shall be 50. The company is liable for breach of its obligations with its entire property. Members liabilities for the company's obligations is limited up to the outstanding part of their pledged contributions registered in the Companies Register. The minimum amount of a member's contribution into the company shall be 30,000 Slovak crowns.
- A joint-stock company *(akciová spoločnosť)* is a company, stock capital of which is composed of a certain number of shares of a certain nominal value. The company is liable with its entire property for a breach of its obligations. The shareholders do not bear any liability for the obligations of the company. A share gives to the shareholder the right to participate in the company's management, in the profits and in the liquidation balance upon the company's winding up, in accordance with Commercial Code and the Articles of Association of the company. A joint-stock company may be established by one founder, provided that the sole founder is a legal entity, otherwise, by two or more founders. The value of the company's stock capital may not be less than 1,000,000 Slovak crowns.

Large companies (and all listed companies) are in the form of *Akciová Spoločnosť*, abbreviated a.s. Joint stock companies may be private or public, and some public companies are listed. Public companies have offered shares to the public, and listed companies are public companies that have been "accepted for trading" on the BSSE. In general, companies listed on the free market are not considered to be listed by law.

Section I: The Rights of Shareholders

Secure Methods of Ownership Registration

The Securities Center (SCP) performs all shareholder recordkeeping for public companies in Slovakia. The SCP is a central registry, and interacts directly with registered shareholders. Nominee ownership is not a recognized concept in Slovakia. The only shareholders with ownership rights are those listed in the share register at the Securities Center. Accounts of institutional investors are currently established in their own name. "Custodians" appear to provide oversight over the securities account, but are not directly responsible for administration.

The Securities Act clearly intends the Securities Center to become licensed as a "Central Depository" under the law. According to this design, Slovakia will move in the direction of a "two-level" shareholder record keeping system. To access the central register, each shareholder will be required to work through a "member" (investment service provider) of the licensed Central Depository. Each investment service provider will work with clients, and interact with the Central Depository on behalf of shareholders. Custodians (as members) will play a much larger role in the future for investment funds and other collective investment vehicles.

Registered shareholders have the right to claim the shares from the bankruptcy assets (as long as a custodian is not registered as a shareholder).

Convey or transfer shares.

Shares of publicly-traded companies are freely transferable. Pursuant to article 156 (9) of Commercial Code, the bylaws of non-publicly-traded joint stock companies may limit (but not exclude) the transferability of registered shares of non-listed joint stock companies. If the transferability is subject to company approval than the exact refusal reasons must be set out by the bylaws.

All organized clearing and settlement is handled by the stock exchange. The BSSE sends orders to the Central Bank to exchange funds, and to the SCP to exchange shares. However, according to the SCP, shareholders are not required to report trades through the exchange, and a large number of trades are reported manually to the SCP. According to SCP data, in 2002, 23,357 trades were reported "off-exchange", and 33,500 transactions were reported through the exchange.

Companies with book-entry shares (including all listed companies) may block share transfers up to five days before the General Meeting. Share blocking is a requirement for banks. For other companies, share blocking is optional.

Shareholder agreements can include obligations for rights of first refusal or other commitments to not transfer shares.

Obtain relevant information on the corporation on a timely and regular basis.

Shareholders have a general right to obtain complete and accurate information about the

company.[1] Shareholders have access to company information (including the bylaws (articles of association) at the Commercial register / Collection of Documents, and to annual and semi-annual reports filed by listed companies. Companies are also required to publically disclose material information.

Shareholders have the special right to obtain information about proposed mergers, consolidations, acquisitions, takeovers, or mergers.[2]

Participate and vote in general shareholder meetings.

Shareholders have a general right to attend the General Meeting and the right to vote.[3]

Elect members of the board.

The AGM usually appoints and removes the directors of both boards on the basis of simple majority of voting rights present at the AGM. Members of both boards are elected by the General Meeting from among the shareholders or other persons for a period stipulated in the bylaws, not to exceed five years. The bylaws may provide that the management board is elected and removed by the supervisory board.

The body electing members of the Board of Directors also determines which member of the Board of Directors shall become the chairman. The board are nominated through personal relationships, though more sophisticated companies carry out formal experience assessments.

Section 200 of the Commercial Code provides that cumulative voting is the default but optional method for electing members of the supervisory board. However, this provision does not appear to be used, and most observers were not aware that it existed in the Code. The bylaws can replace this method.

In the election of members of the Supervisory Board, voting shall concern proposals of individual persons for all members of the Supervisory Board at the same time. A list of candidates shall be prepared from all presented proposals for members of the Supervisory Board. Shareholders shall elect members of the Supervisory Board determined by the number of votes from the total number of their votes, voting for individual candidates, and they may vote at most for the same number of candidates as there should be members of the supervisory Board elected at the General Meeting. Candidates who have gained the most votes in order shall become members of the Supervisory Board

Share in the profits of the corporation.

Shareholders have the right to share in profits, and to participate in the liquidation balance upon the company's winding up.[4] Shareholders have no recourse to dividend payments. They may only claim payment of dividends at a court.

Fundamental Corporate Decisions

There is no quorum requirement under Slovak Law, for either the first or second meeting. Most

[1] Article 180(3) of Commercial Code.
[2] Article 218c of Commercial Code.
[3] Article 184 of Commercial Code.
[4] Article 155 of Commercial Code, Article 178 of Commercial Code.

decisions are taken by a majority of shareholders present at the meeting. Under the Commercial Code the following decisions require a 2/3 supermajority of votes of present shareholders:

- amendment of bylaws;
- increase or decrease of the registered capital;
- authorisation of the Board of Directors to increase registered capital;
- issue of priority or convertible bonds;
- winding-up of the company;
- change of the legal form of the company;
- termination of public tradability of shares.

However, the bylaws may specify other matters approval of which requires a special majority.

Table 4: Topics to be addressed by Ordinary and Extraordinary Meetings of Shareholders

Power	**Approval**	**Notes**
Drawing up and amending the articles of association / company charter	Supermajority	Section 182 (1) and (2)
Capital increase	Supermajority	Section 182 (1) and (2). Registered capital may be increased by a subscription of new shares, from the assets of the company, or a combination of the two. If several classes of shares have been issued, a two-third's majority of votes for each class of shares of the attending shareholders are required. Capital increases can be authorized, and delegated to the management board, for a period of five years.
Capital decrease	Supermajority	Section 182 (1) and (2)
Mergers and takeovers	Supermajority	
Large Transactions	Board	Not addressed in legislation
Changing the rights or transforming share types/classes	Supermajority of each class at Class EGM	Section 186(2)
Mergers	Supermajority	Commercial Code Section 218c(1). Supervisory board must give an opinion. If several classes of shares have been issued, the approval of a two-third's majority of the present shareholders of each share class is required.
Winding up the company	Supermajority	
Delisting	Supermajority	Section 187 (2).
Other Items		

Power	Approval	Notes
Appointing, removing and setting the remuneration of the board	Ordinary	Supervisory Board members are always elected by the AGM simple majority. Management board can be appointed by supervisory board. Board always sets remuneration.
Appointing, removing and setting the remuneration of the auditor	Management board only.	Not covered by law or regulation; effectively responsibility of Management Board
Waiver of pre-emption rights	Ordinary	Current shareholders have preemptive rights to subscribe for new shares pro rata to their participation in total nominal value of all shares.[5] The general meeting may limit or cancel pre-emptive rights of existing shareholders if the prime interests of the company requires such exclusion / limitations, with a simple majority vote.
Issuing bonds	Supermajority	
Share buy-backs	Ordinary majority	The acquisition of shares must approved by the AGM. It must define the terms at which the company acquires its own shares, including but not limited to the maximum admissible number of shares, the time period over which the company must acquire the shares (which shall not be longer than 18 months), and the lowest and the highest price, at which the shares may be acquired. Acquired shares cannot exceed 10 percent of the registered capital, and cannot reduce equity below registered capital and required reserves. The company must dispose of acquired shares within three years of the date of acquisition.
Related party transactions	Board	Not addressed in legislation
Changes to company objectives		Not addressed in legislation
Other shareholder rights		Change of form of shares; Change of legal form of the company;
Converting from public company to private company	Unanimous approval of shareholders	

Shareholder Meetings

General Meetings are convened by the Board of Directors except for exceptional cases defined by law when it can be convened by the Supervisory Board. Extraordinary General Meetings may be convened at the request of shareholder(s) holding at least 5 percent of the registered capital of the company, or if the Board of Directors discovers that losses of the company exceed 1/3 of registered capital of the company.[6] If the Extraordinary General Meeting is requested by shareholders, the management board must convene the EGM within 40 days of the day of the request.

Under the Commercial Code, shareholders have a general right to attend the General Meeting

[5] Article 204a of Commercial Code.
[6] Article 181(1) of Commercial Code.

and right to vote.[7] Each shareholder is entitled to attend the General Meetings, to vote, to ask for information and explanations and to submit proposals. Listed companies must publicize the General Meeting in a daily national financial newspaper. If the company has registered shares, the AGM is convened with a written notice distributed at least 30 days prior to the General Meeting. If the company issued bearer shares, the General Meeting shall be convened by publication of a notice in a daily nation-wide economic newspaper.

The General Meeting should take place in the seat of the company unless otherwise stated in the bylaws.

The AGM is required by law to elect a Chairman, a secretary, two persons to verify the minutes, and persons to count the votes[8] The minutes must include the place, the date and time of the AGM, the names of the Chairman, the secretary, the verifiers and the vote counters, descriptions of the discussion concerning each item on the agenda; decisions taken by the AGM and the votes cast; and any protests lodged by shareholders or members of the boards against decisions taken by the AGM. Any proposals and submitted for discussion must be enclosed with the minutes.

The management board must complete the minutes within 30 days of the date of the meeting. The secretary, the chairman, and two elected verifiers must sign the minutes. Every shareholder has the right to request a copy of the minutes. The management board must send a copy of the minutes to any shareholder that requests them, unless the bylaws provide another method.

Voting procedure (including counting of votes) may be set out individually in the Articles of Association. However, generally, blank votes and votes of present shareholders who abstain are considered if the majority is calculated from the present shareholders.

Votes of shareholders not present are not automatically cast in favor of management. There are no reports of management or controlling shareholders making it difficult for minority shareholders or foreign shareholders to cast their votes.

In general, company meetings are poorly attended if the company has a large number of small shareholders, especially when they obtained their shares in coupon privatization. There is little shareholder activism.

(1) Shareholders should be furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be decided at the meeting.

In a company with registered shares, the Board of Directors shall send out invitations to all shareholders at the address of business or the residence stated in the register of shareholders at least 30 days before the holding of the General Meeting.

In a company with bearer shares, an announcement on the holding of the General Meeting within this period shall be published in the periodic press publishing stock market reports with a nation-wide circulation if Articles do not establish other determined press with nation- wide circulation. Articles may also establish other means of publishing. A company shall send out by registered mail to the owner of bearer shares, an announcement on the holding of a General Meeting in the

[7] Article 184 of Commercial Code.
[8] Commercial Code, Section 188.

same time-period to an address stated by him and at his expense if the owner of bearer shares has arranged, as a surety for the settlement of expenses associated with it, a right of lien in favour of the company at least one company share.

Public companies must publish the announcement of a General Meeting in a financial newspaper with a nation-wide circulation. The invitation must include: the business name and the registered office of the company, the place, the date and time of the General Meeting, information as to whether an Ordinary or an Extraordinary General Meeting is being convened, and the agenda of the General Meeting. If the agenda includes amendments to bylaws, then the invitation must also include the draft amendments. If the agenda includes the approval of new board members, then the names of these new members must be available to the shareholders.

(2) Opportunity should be provided for shareholders to ask questions of the board and to place items on the agenda at general meetings, subject to reasonable limitations.

The management board must make full and complete disclosures to any shareholder on issues relating to the agenda. If the Board of Directors is not able to provide a complete explanation, it must disclose such information to the shareholder in writing within 30 days of the date of the General Meeting. The disclosure may only be refused if it results in a breach of law or if it could cause damage to the company. If the Board of Directors refuses to disclose information, the Supervisory Board must decide whether the information shall be disclosed. If Supervisory Board disapproves the disclosure, shareholders can request that a court make a determination fo the company's obligation.

Shareholders holding 5 percent of capital have the right to request information and explanations at the General Meeting.[9] In addition, as a result of amendments to the Commercial Code, 5 percent of shareholders have the right to force items onto the agenda.[10] Shareholders must request the addition to the agenda after the publication of the meeting notice, but more than ten days prior to the General Meeting. The new agenda item must be recirculated at company expense.

(3) Shareholders should be able to vote in person or in absentia, and equal effect should be given to votes whether cast in person or in absentia.

Shareholder may vote at the General Meeting in absentia through a representative who is entitled to vote on his/her behalf. The proxy must be in a written form. A member of Supervisory Board cannot be appointed as a proxy. By law proxies do not have to be notarised, but it is company bylaws commonly contain this requirement. Mail and electronic voting is not allowed.

Equitable Treatment

The Commercial Code does not require one share, one vote. Companies can issue a number of different classes of shares; the voting power of each class is proportional to the nominal share value relative to total share capital.[11] In addition, voting caps are allowed; the bylaws may limit voting rights attached to shares through a voting cap, and the voting power of each share class can be lower than its nominal share value would indicate. Companies may also issue preferred

[9] Article 180(1) of Commercial Code.
[10] Article 182(1) (a) of Commercial Code.
[11] Securities Act, Section 180.

shares with priority rights to dividends, but without voting rights.[12] Preferred shares may be issued up to 50 percent of registered capital. When the company fails to pay the preferred dividend, preferred shareholders acquire voting rights until priority dividends have been paid. Preferred shareholders also have voting rights at General Meetings that discuss the payment of the preference dividend. Any other shares with varying voting rights (such as founders shares) are not recognised under Slovak law.

Information on share classes, voting rights, and voting caps are defined in the company bylaws (Articles of Association) which are available in the Collection of Documents at the Commercial register maintained by the District Court. Companies do not have to specifically disclose this information in an annual report (other than disclosures required to meet IFRS).

Shareholder Redress

The recent reform of the Securities Act provided considerable additional power to minority shareholders to obtain redress for violations of their rights.

Shareholder(s) representing at least 5 percent of registered capital (the bylaws can set out a lower threshold) may request from the Supervisory Board to file an action on behalf of the company against members of Board of Directors to claim damages, or to raise other claims against them, caused by the members of Board of Directors. This same amount of shareholders can also request the supervisory board (on behalf of the company) to review the conduct of the Board of Directors.[13] If the Supervisory Board fails or refuses to file such action the shareholders may file an action on behalf of company directly. The shareholders may also raise a claim under Section 176b of the Commercial Code, under which a company must treat all shareholders under the same conditions equally.

Shareholders (5 percent) may ask a court for authorisation to convene Extraordinary General Meeting (if the Board of Directors refuses to do so upon their request). If Board of Directors or the Supervisory Board fails to follow the minority shareholder's requests resulting from the law, the minority shareholder is entitled to raise a claim directly on behalf of the company. Minority shareholders may claim at a court that a resolution of a general meeting is invalid if such resolution was taken contrary to law or Articles of Association.[14] Finally, a shareholder may claim through a court that a company gives requested information to a shareholder.

Because the legislation is so new, there has been little precedent or experience with the new laws. The most commonly used and most successful method of redress has been petitions to invalidate General Meeting decisions.

Aside from the takeover rules, the FMA does not have any explicit ability to protect shareholder rights. Such rights are granted to courts, which may decide on invalidation of a decision of a General Meeting; convene the Extraordinary General Meeting if the Board of Directors refuses to do so upon valid request of minority shareholders.

Custodians

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[12] Securities Act, Section 159.
[13] Article 182(1) (c, d,e,f,g) of Commercial Code.
[14] Resolutions of the AGM may be invalidated by a court at the request of shareholders who attended the AGM and protested against its resolution, directors, bankruptcy trustees and settlement trustees. The right to claim invalidation of the AGM resolution shall cease to exist 3 months after the AGM (or after the date when an entitled person could have learnt about the AGM).

Due to the current structure of shareholder record keeping in Slovakia, custodians play a less direct role in Slovakia than in many countries. The Securities Center (SCP) performs all shareholder record keeping for public companies in Slovakia. The SCP is a central registry, and interacts directly with registered shareholders. Evidence of share ownership is a record in the respective registry of the SCP. Under the current system, there is no nominee ownership; all shareholders are represented in the system in their own name. "Custodians" appear to provide oversight over the securities account, but are not directly responsible for shareholding or administration.

In the future, this record keeping structure will change, and will increase the processing role and importance of the custodian. The Securities Act intends the Securities Center to become licensed as a "Central Depository" under the law. According to this design, Slovakia will move in the direction of a "two-level" shareholder record keeping system. To access the central register, each shareholder will be required to work through a "member" (investment service provider) of the licensed Central Depository. Each investment service provider will work with clients, and interact with the Central Depository on behalf of shareholders, including clearing and settlement. Voting arrangements depend on the agreements or other arrangements between the custodian and the shareholder(s).

The Securities Act establishes responsibilities for the "administrators" of securities. The administrator "…is obliged with due professional care… to undertake … all legal action necessary to exercise and preserve the rights associated with a security." Administrators are obliged to follow client instructions, including voting instructions.

ANNEX F. OWNERSHIP DISCLOSURE, TAKEOVER RULES, INSIDER TRADING, AND PREVENTION OF SELF-DEALING

Ownership Disclosure

Listed company shareholders must disclose when their ownership crosses specific thresholds (5, 10, 20, 33, 50 and 60 percent) of their share of voting rights. The threshold must also take into consideration shares held by third parties but under the control of the disclosing shareholder, including shares covered by shareholder agreements. The shareholder must inform the issuer, the Central Depository, and the FMA within three days of crossing the threshold.

The obligation of a disclosing shareholder includes the disclosure of the structure of voting rights of disclosing shareholders (i.e. whether they are exercised by the disclosing shareholder, in accordance with an agreement with a third party, for a third party etc.), although third party details do not have to be disclosed. The Central Depository is responsible for making the information public.

Market for Corporate Control

Because of the highly concentrated ownership structure, opportunities for takeovers are relatively limited. The control of companies is relatively stable, as controlling shareholders are well entrenched.

A shareholder (or shareholders acting in concert) whose shareholding in a listed company reaches or exceeds 33 percent, 50 percent or 60 percent must declare a tender offer to purchase all quoted shares issued by one shareholder. All shareholders of the same class must be treated equally. The minimum offer price is set out by law. The offer price may not be lower than:

- the average price at a stock-exchange during last six months before the acquisition; and
- 50 percent of a net equity per one share at time of the last audited accounts, before the mandatory tender offer was published.

A mandatory tender offer may not be cancelled.

The Offeror must (i) inform the management board of the target company; (ii) inform the FMA, and (iii) announce the offer in a daily nationwide economic newspaper. The offer must be approved by the FMA before it is published. The Offeror must publish its shareholding in the target company and other details at least once a week after the publication of the offer. The offer can be changed (valid the beginning of the last week of the offer-term) subject to its approval by the FMA.

The FMA has oversight over takeovers. Compliance with the Securities Act is monitored and the sanctions for wrong doers are imposed by the FMA, although the law is untested. Additional regulatory permissions are required in specific sectors (e.g. insurance, banking). Competition restrictions are regulated and enforced by the Antimonopoly Office.

There are no squeeze-out provisions.

Delisting

To delist from the exchange, a general meeting must pass a supermajority vote for a delisting resolution. Following the passage of the resolution, a compulsory tender offer must be made to all shareholders who did not vote for the resolution at the general meeting.

Insider Trading

Insider trading is prohibited, according to the Securities Market Law. An "insider" who acquires "insider information" is not allowed to:

- Use insider information for its benefit or for the benefit of other legal or natural persons, in particular to buy or sell investment instruments to which such information pertains, until the information becomes information in the public domain
- Disclose or give access to another legal or natural person to insider information, unless disclosure of such information is a part of its duties or employment
- Advise any person to buy or sell securities based on insider information.

Insiders are defined in the law as shareholders, employees, professionals, or other positions or offices who are authorized to acquire inside information. Insider information is defined in the law as information which[1]

- Has not been published;
- relates to one or several issuers, or one or several investment instruments admitted for trading on a stock exchange, or any other material fact important for the development of the price or price3s of one or several investment instruments;
- After its disclosure, could significantly influence the price of investment instruments admitted for trading on a stock exchange, and, as a result, earn any benefits to its holder or any other legal or natural person.

Obligations to maintain the confidentiality of the insider information go away when the information is made public.

While insider trading is illegal, there appear to be no enforcement or surveillance programs that attempt to detect or prevent its use. In addition, the scope of authority of the FMA appears to prevent the FMA from making applying sanctions to any individuals, unless those individuals are employees of "supervised entities" (financial institutions licensed by the FMA).

Under the Commercial Code, unless the bylaws provide otherwise, no member of the management board is allowed: to enter into business deals in the company's line of business, to mediate the company's business deals for third parties, to participate in the business of another company as a member with unlimited liability, or, to exercise the powers of a statutory body or to be a member of a statutory or similar body of another legal entity having similar scope of business, unless it is on behalf of a group company.

A company may demand that any person in breach of such a ban shall relinquish any profit generated from the business transaction that resulted in the breach, or to transfer the rights ensuing from such a transaction to the company. In addition, the company has the right to claim damages.

Under the Criminal Code, a person who, without authorization and with intent to acquire an

[1] Article 132, Securities Market Law.

advantage or benefit for himself or someone else, uses information acquired in the course of carrying out his employment, profession, position or office, if such information is not yet available to the public and can substantially influence business decisions, and who concludes or initiates execution of a contract, or effects an operation on an organized market in either commodities or securities, shall be punished either by imprisonment for a period of up to 3 years (in case of extensive benefit up to 12 years), a prohibition of his activities, or by a pecuniary penalty. Such punishment shall also apply to a person who, with intent mentioned therein before and as an employee, member of an organ, partner, entrepreneur or participant in business activities of two or more companies involved in the same or a similar business, concludes or initiates conclusion of a contract to the detriment of one or more of the companies.

Information on name and age of directors is disclosed through Commercial register and Collection of documents maintained by the Commercial registry. There is no disclosure requirement with respect to compensation, shares held, career history, qualification, business or other relationship with respect to related parties or a major shareholder (unless it is a sole shareholder of a joint-stock company, whose name and details must be disclosed in the Commercial registry.

There are no share trading disclosures for managers, and no rules on conflicts of interest at shareholder meetings or at board meetings.

Other Abusive Self-Dealing.

Approval of Related Party Transactions

A company may provide a loan or grant the right to use of company's property to a member of Board of Directors, procurists or to their related parties or parties acting on their behalf, subject to prior consent of the Supervisory Board and on arm's length basis. Supervisory Board´s consent is not required if a loan is provided to a party under the company's control. Loans or advances provided to the management and related information are disclosed.

Such transactions must be approved by the shareholders, if it is executed within two years from incorporation of the company.

Disclosure of Related Party Transactions

Slovak law requires significant disclosures of related party transactions, as part of annual financial statements. Accounting legislation requires the disclosure of relationships between most types of related parties, even where there are no transactions, in the "General data" section of the Notes to financial statements. Relationship with parties where control exists must always be disclosed.

An external auditor must follow Slovak standards on auditing and, where in doubt or where specific areas are not addressed, usually uses ISA as supporting rules. With respect to related parties, Slovak standards and procedures are identical with ISA 550. In practice, all material related party transactions must be disclosed in the Notes to financial statements and approved by an auditor. Auditors generally do review such information carefully to meet relatively high professional standards, although this may vary between e.g. the Big 4 auditors and relatively unknown local firms.

Board members do not have additional obligations under accounting legislation to make disclosures of matters that affect the corporation. such disclosures. If the company acquires

assets from its shareholders for a consideration equal to at least 10 percent of the registered capital, such transaction must be evaluated by a court-approved valuer and the agreement must be delivered to the Collection of Documents maintained by the Commercial register, which is publicly available.

Related party transactions are normally monitored by the Supervisory Board. However, the legal rules on approval of related party transactions are new, fairly limited and untested.

ANNEX G

Disclosure

Disclosures required by the Securities Act

An audited **annual report** must be prepared by May 31 of each year, filed with the FMA and the stock exchange, and published in a nationwide daily newspaper that covers stock exchange news. In addition, the public must be able to inspect the report at the company's registered office[1]. The annual report must include:

a) audited financial statements;

b) A report on financial situation, including:

1. A table containing data from the issuer's balance sheet and income statement for the last two accounting periods;
2. A table containing data from consolidated financial statements for the last two accounting periods, if prepared by the issuer, and the method applied in consolidation of financial statements; trade name, registered office and identification number of businesses included in the consolidated financial statements;
3. An overview of outstanding bank loans and other credits, including repayment details, broken down into short-term and long-term,
4. Type, form, nature and nominal value of any securities already issued by the issuer and a description of the underlying rights. For bonds, the information must include the date of first issue, maturity, and nominal value, the method for determining the yield and dates for yield payout, and any guarantees for the repayment of principal or payment of yield, including identity data on persons assuming the guarantees,
5. The number and nominal value of previously issued convertible bonds and procedures for their replacement by shares,
6. Business results for the past three calendar months;
7. Projections for economic and financial performance of the issuer as at the end of the year, to the extent of data provided in financial statements,

c) Information on the distribution of profit;

d) Economic and financial projections for the next calendar year.

If the financial statements are not audited within the deadline of the annual report, the law states that the auditor's report must be published as a supplement to the annual report, and submitted to the FMA "without undue delay." If a general meeting does not approve its annual financial statements, the company must publish the reasons for disapproval, and actions taken on objectives raised by the general meeting, within 30 days of the annual meeting.

An **mid-year report** must be prepared by August 31 of each year, filed with the FMA and the

[1] Securities Act, Article 130, and Article 77, Paragraph 2.

stock exchange, and published in a nationwide daily newspaper that covers stock exchange news. In addition, the public must be able to inspect the report at the company's registered office[2]. The mid-year report must include:

a) financial statements for the past half-year and the auditor's opinion, if the financial statements have been audited;

b) report on financial situation

1. a table containing data from the issuer's balance sheet and income statement for the last two accounting periods,

2. a table containing data pursuant to item 1 from consolidated financial statements for the last two accounting periods, if prepared by the issuer, and the method applied in consolidation of financial statements; trade name. registered office and identification number of businesses included in the consolidated financial statements,

3. an overview of bank loans and other credits accepted, repayment details, broken down into short-term and long-term,

4. type, form, nature and nominal value of any securities already issued by the issuer and a description of the underlying rights; for bonds, the information shall include the date of first issue, maturity, and nominal value, method for determining the yield and dates for yield payout, guarantee for the repayment of principal or payment of yield, including identity data on persons assuming the guarantees,

5. number and nominal value of previously issued convertible bonds and procedures for their replacement by shares,

6. business results for the past three calendar months

7. projections for economic and financial performance of the issuer as at the end of the year, in the extent of data provided in financial statements,

c) description of any major factors which have influenced the issuer's business performance in the period covered by the midyear report,

d) economic and financial projections for the next calendar half year.

Public companies must also make continuous disclosures of "any changes in its financial situation or other circumstances that may result in a change in price of the securities."[3] These include (but are not limited to):

- any major changes in business, manufacturing, or marketing conditions
- the opening of bankruptcy or composition proceedings
- suspension of operations of an issuer by an administrative decision

[2] Securities Act, Article 130, and Article 77, Paragraph 2.
[3] Securities Act, Section 130, 6.

- a decision to dissolve, merge or divide the issuer, and other material organizational changes
- any reduction of the equity of the issuer by more than 10 percent
- the initiation of liquidation of the company.

Disclosure must be made "without undue delay" to the FMA and the BSSE, and excerpts must be published in a national daily newspaper. All disclosed information must be available for inspection at the company's registered office. An issuer may request the FMA to allow the non-disclosure of certain information in a report if the publication of such information would be "at odds with public interest or seriously damaging to the issuer". The FMA must take a decision on such a request within three months from registration of the request of an issuer

Additional disclosures required by the Bratislava Stock Exchange

The BSSE has established specific disclosure requirements for listed companies, as identified in the table on the following page. Free market companies have no additional disclosure requirements.

Disclosures required by the Commercial Code

The Commercial Code requires that certain information and documents be deposited in the Commercial Registry and its "Collection of Documents." New information and changes to existing information must be made within 30 days.

Table 5: Information Available at the Commercial Register

The following data shall be entered in the Commercial Register: (Commercial Code, section 28):

- Company name, address, and ID number
- Company scope of business (activities);
- Company legal form;
- Names and addresses of management and supervisory board members, details on their election, date of election
- The amount of registered capital
- The amount of paid up contributions
- The number, type, class, form and the nominal value of shares, possible limitation of transferability of bearer stock; if the company has a sole shareholder, the name and address or the business name or the name and registered office of this shareholders shall be registered as well;
- The cancellation of the company and the details of a liquidation.

The "Collection of Documents" in the Commercial Registry must contain:

- Founding documents
- Any change in Articles of Association (including full wording of changes)
- Financial statements, the annual report, the audit report, and information about the auditor.
- Any court decision ordering liquidation, and the final report of the liquidator on the liquidation
- Any decision on the cancellation of the company, a court decision on the cancellation of a the company, a court decision on the deletion of an entrepreneur from the Commercial Register;
- A decision on the declaration of bankruptcy proceedings
- A valuation expert's report if non-monetary capital is contributed;
- Merger contracts

Table 6: BSSE Additional Disclosure Requirements for Listed Companies

	Main Listed Market.	BSSE Parallel Listed Market.	New Listed Market	Free Market
A year report and mid-year report on the issuer's economy	✓	✓	✓	
Consolidated financial statements (if required)	✓	✓	✓	
Information published by the stock exchange:				
Any information that could have an important effect on the assets, liabilities, or financial situation of the company and could lead to substantial changes in the price of a security	✓	✓	✓	
Draft amendments to the Articles of Association, Foundation Agreement, Deed of Association or Foundation Charter	✓	✓		
A decision to pay out yields from securities, to repay securities or to issue new securities	✓	✓	✓	
Other disclosure obligations:				
Information on the holding of general meetings (agenda, the date of decisive day to exercise the shareholder's right to attend the general meeting, amendments to the Articles, information about the course of the general meeting)	✓	✓	✓	
Information on a change, cancellation or suspension of the right to dispose of securities due to the holding of a general meeting	✓	✓		
Current wording of the Articles of Association, Foundation Agreement or Foundation Charter	✓	✓	✓	
Personnel changes related to the members of the statutory body, members of the Supervisory Board and top managers	✓	✓	✓	
A decision on a fusion, merger, split and termination of the company or any other form of its transformation	✓	✓	✓	
A decision on the distribution of profit and payment of dividends	✓	✓	✓	
A decision on a change of shares' particulars	✓	✓	✓	
Full versions of audited annual financial statements prepared according to the Slovak and international accounting standards, a statement and report of the auditor	✓	✓	✓	
Annual Report	✓	✓	✓	
Full versions of the Balance Sheet and Profit and Loss Statement	✓ **(quarterly)**	✓ **(semi-ann.)**	✓ **(quarterly)**	
Changes affecting the structure and appearance of issued securities (information about an issue of new securities as well as about a GDR or an ADR issue)	✓	✓	✓	
Changes in the entry in the Commercial Register	✓	✓	✓	
Total number of shareholders and a list of shareholders that own 5 percent of shares and more.	✓	✓	✓	
Identification of persons that own 1 per cent and more of the issuer's shares with which the voting right is connected	✓	✓	✓	
Information about admission of securities to trading on another organized market	✓	✓	✓	
Updated annual sales plan (it is not published and only serves for the stock exchange's internal purposes)			✓	