Background Information

The Corporate Governance Code based on the OECD principles and local Company Law were adopted by the Securities Commission of the Republic of Srpska in 2006. Some of the provisions of the CG Code were part of regulation and were mandatory for companies to implement. The other provisions were recommendations and companies were not legally bound to implement them, but were obliged to explain why they fail to do so. The final provisions of the Code included provision that companies listed on the stock exchange must apply the Code, while for the other companies which were not listed on the stock exchange there was only recommendation to apply them and there was no sanction for not applying the CG Code.

In the Republic of Srpska there was a practice that companies were applying regulation in place but did not implement provisions of the Code in their companies’ acts. There was no sanction for companies because investors were not using the capital markets for raising the capital. Companies had little incentives to follow the best corporate governance practices.

In 2009 the new Company Law was adopted and stipulated that companies listed on the highest market segment of the stock exchange (Official Market) must adopt their own Code or accept and implement the Code developed by the Securities Commission of the Republic of Srpska. The Securities Commission of the Republic of Srpska revised the existing Code in order to harmonize it with the new Company Law. Companies started to adopt the CG Code, because it became a legal obligation. Only few companies adopted their own standards, while majority of them decided to accept the Code as adopted by the Securities Commission of the Republic of Srpska. Companies listed on the Official market of the Banja Luka Stock Exchange were obliged to adopt the CG Code, and in 2010 the adoption of the Code became a listing requirement for the Official Market. Companies listed on the Free Market (lower market segment of the stock exchange) have not adopted the CG Code since they were not legally obliged to do so.
The Banja Luka Stock Exchange CG Scorecard

The Banja Luka Stock Exchange adopted CG Scorecard in 2009. The Scorecard was drafted in cooperation with IFC, Securities Commission, Global Corporate Governance Forum and LOK institute. After adopting the scorecard, the Banja Luka Stock Exchange has put an effort in the promotion of the scorecard: special panel on the International Stock Exchange Conference, publication “Banja Luka SE Official Market”, press releases to media, the main Banja Luka Stock Exchange web page, awarding the companies with best scores at the BLSE Conferences, etc. Adopted CG scorecard became the tool to access the achieved level of CG practice among the companies listed on the Banja Luka Stock Exchange. Each year the Banja Luka Stock Exchange evaluates about 20 companies listed on the Official market. The results of the evaluation are used to identify weakest areas in the CG practices in order to change regulation, code or to organize seminars for companies. We present results of the evaluation on our International Stock Exchange Conference. Company with the best score is awarded as a company with the best corporate governance. Scorecard provides figures that are important for informed decision making. Very often figures are not the same as it is the general perception on some CG practices. Figures are very important for media when they want to change some bad CG practices.

CG scorecard benefits in transition economies as is case with Bosnia and Herzegovina. It helps to monitor stock exchange disclosure requirements, provides feedback to stock exchange that can be used for market segmentation, helps with inputs for the educational activities, gives the companies feedback on what investors expect from the companies regarding CG practice, provides historical data on CG practices that can serve for informed strategic decision making. Scores can be used as input for CG codes change. Media uses results to put pressure to change improper CG practices.

Conduct the scorings

Banja Luka Stock Exchange were scoring companies listed on the Official Market repeatedly over a five-year period. BLSE staff made appointments and drove to the companies in order to meet with the staff, explain them benefits of good CG practices, convince if the companies listed on the Official Market adopted and implemented the Code, fill in scorecards onsite and provide direct feedback to companies on how to improve their practices. Over time the companies became adept at filling in the scorecards and the process became much more efficient. The scorings were accompanied by a number of educational activities which helped companies to turn the results of scorings into action.
For discussion

- CG standards vs. regulation in transition economies,
- should CG scorecards be mandatory or voluntary,
- should CG scorecards be the same in the economy with different laws for listed companies (company law, bank law, etc...)