

U.S. BACKS DISCLOSURE PROJECT

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The project involves an overhaul of the state's system for reporting corporate statements and making them publicly available in Ukraine if a project sponsored by the United States Agency for International Development (USAID) pans out.

Success of the project, which falls within USAID's \$10 million capital markets development project, could also boost into Ukraine's small but promising stock market, giving brokers a more accurate picture of the health and operations of companies traded.

The project involves an overhaul of the state's system for reporting corporate statements and making them publicly available. A publicly available website known as SMIDA is currently assigned this role, but filings are largely incomplete due to poor compliance by companies and weak enforcement by Ukraine's State Securities and Stock Market Commission.

USAID and the state securities commission signed a protocol of cooperation, entitled Development of Capital Markets, Nov. 14 in Kyiv.

The U.S. government agreed to fund the establishment of a new electronic system, including a website, that will provide latest financial statements and other information on Ukraine's joint stock companies in real time.

The goal of this project is to get Ukrainian corporations to follow international standards in divulging more corporate information on operations, shareholder structure and management changes, making data available to the public more complete and accessible.

However, industry insiders say its success will depend on the corporations' willingness to follow the new rules, and the determination to enforce them.

Work on the new disclosure system under the USAID project began in 2005, and is expected to be complete within four

Volodymyr Khorytskiy, a member of the securities commission, said 10 companies will take part in a pilot launch of the system at the beginning of next year.

"There will be an electronic system that will gather, process, store and publish the information about production, financial activity and any other activity from all stock companies," Khorytskiy said.

Ukrainian legislation requires all joint-stock companies to disclose their annual financial reports and information about shareholders, but reporting is slow and incomplete.

The commission's SMIDA website is today publicly available, allowing market players to look for valuable corporate data. About 19,000 companies are listed in the system, but the information is largely incomplete and "doesn't reflect ongoing changes in companies, which is vital for a transparent market," said Khorytskiy.

Fines for noncompliance are generally in the \$3,000 range, a small price to pay for companies eager to keep their operations secret. While SMIDA is expected to continue operating in the future, USAID and commission officials hope the new system will offer noticeable improvements.

"The electronic disclosure system is one step in bringing all stock companies up to international standards of reporting and accustoming them to real-time reporting," he added.

Ann Wallace, manager of the USAID project, said the main advantage of the disclosure system is that the commission, shareholders, investors and market players will have equal access to information.

"Everybody will get the same information at the same time and directly from the issuer," Wallace said.

"No one will trade on insider information that wasn't disclosed to the market," she added.

According to Wallace, under the new system, companies will report their business and financial information directly via computer without human interference.

“The electronic system allows an issuer to sit in an office preparing the information, and then just send it to the commission database, and it will appear on the website on a real-time basis,” she said.

USAID is providing technical and financial assistance.

“We will provide the commission with the appropriate hardware and software for the website and usage tips,” said Wall

Anatoly Shpanko, an analyst at the Ukrainian Investment Business Association, said the new system may nevertheless be hampered by the human factor.

“Companies are used to providing [the commission] with annual financial statements in hard copy, but not with quarterly electronic reports or current events in production and management,” Shpanko said.

“The success of the project will depend on a combination of obeying the law and the company’s will to open up,” he ad

According to Shpanko, it should be in the corporation’s interest to be open to the market, if they want to attract meaningful investment and maintain a good business reputation.

“The accessibility of information will first and foremost influence the quality of the market, and then it might lead to its growth quantity,” said Shpanko.

According to the Ukrainian Investment Business Association, there are around 33,000 registered corporations in Ukraine, around 11,000 of which are open joint-stock companies. Only 2,000 of these are listed on the country’s stock exchange, Shpanko said.