



IMPORTANCE OF INFORMATION FOR TRANSPARENCY OF THE BUSINESS ENVIRONMENT

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Transparency – information openness of firms related to the external environment – is entering the Slovak economy together with transformation of ownership relations. A transparent firm creates in its surroundings a positive picture not only of itself but at the same time expresses its belonging to the economic and social environment in which it operates and issues a positive signal about itself and demonstrates its stability. Transparent firms are pillars of a transparent business environment. Investors perceive a transparent business environment as less risky, therefore it can be more attractive for their investment (depending on the relation to risk).

A firm can be deemed transparent if it provides information about itself at least in an extent and in time established by law, whereby it demonstrates its respect for laws, justification of its existence, willingness to pursue a chosen strategy, and interest of its managers and owners in its long-term stability.

Transparency strengthens credibility of a firm for investors, which enables acquiring necessary capital, and for business partners, which helps maintain stable trade relations and financial flows important from the viewpoint of prosperity of the firm. Its important aspect is social security for employees.

Importance of Information in Managing a Firm

Providing information represents one angle of view on the position of information in managing a firm. However, no firm can cope without gathering information, for example about elements of the supply and sales chain, about competitors, as well as the wider economic environment and legislation. According to one of major analysts of the future P. F. Drucker, access to information represents the basic precondition for success of a firm¹. This covers using information to manage a company in a way that managers will produce their judgment created from information and will be capable of flexible reactions to requirements linked with needs of the firm and its surroundings. This takes us to a firm as a user of information. Aggregated firm data represent a comparative basis of determining the position of a firm within an industry, it enables processing extensive analyses at the level of industries and thus create preconditions for comparing their producti-

on and financial strength, not only within a single territory. This means that information that a firm provides can reenter it in a different form and be used again.

Who in the external environment of a firm waits for information? It's those who decide only based on available information and establish trade contacts only with an entity about which they have corroborated information. These can be:

- a shareholder who is interested in the rate of appreciation of invested capital and who searches for investment potential,
- a banker who is interested in repayment of a provided loan and searches for client potential,
- a trade partner who is interested in payment of obligations for delivered goods and who is establishing new trade contacts,
- a competitor who monitors above all a market share in a selected segment,
- an employee, who should have the basic information about his employer, also not to be disappointed by a potential discontinuation of the firm's operations.

Other entities interested in company information make up a diverse group².

The external environment usually needs to get in the following information:

- publicly accessible data of general character, which, based on valid legislation, is filed in registers, i.e., identification and contact information, branch category in which the firm operates, or products it provides, so-called office information;
- financial data, i.e., financial statements, financial reports (balance sheets, profit and loss statement), selected data from accounting records, which are disclosed on the basis of valid legislation; information

¹ Drucker, P. F.: Next information revolution, Forbes, 08/24/98, Database: Academic Search Elite.

² Rating agencies, consulting firms, forfeiting firms, insurance companies, etc.

most in demand includes data about the value and structure of the firm's assets and capital, revenues, costs, economic result, as well as sales of goods and services, paid interest, so-called financial information.

The following laws regulate filings into registers in the Slovak Republic:

- **Tradesmen Act** – Tradesmen Register³
- **Commercial Code** – Commercial Register⁴, Commercial Bulletin⁵
- **National Statistics Act** – Register of Organizations⁶
- **VAT Act** – Register of Tax Entities⁷

Since a firm operates in an environment by which it is affected, it is important to know the macroeconomic development ex post as well as a development prognosis of the basic macroeconomic indicators, in particular

when it formulates its strategy and draws up its plan. The legislative framework is important that a firm has to abide by, also since this can be a certain limiting factor. Also data is important about the industry into which a firm belongs by its prevailing economic activity, to enable evaluating what position it takes in the industry ranking.

Gathered information should be updated and reliable. Financial data relating to a firm is available always with a certain delay, which is natural from the principles of accounting and this is also accepted in deadlines for disclosure of financial data stipulated in legislation, therefore it is necessary to follow current data about a firm based on information published in the press. It is useful to corroborate all gathered information, i.e., compare various information sources, if these are available.

Regulation of Disclosure of Financial Data in Legislation of the Slovak Republic

Commercial Code	
– collection of documents established by law ⁸	Annual accounts – are filed in a collection of documents (joint stock company, limited liability company, cooperative, state company)
Accounting Act	
– contents of an annual report ⁹	Annual accounts – component of annual reports
– disclosure duty of trading companies toward the external environment ¹⁰	Annual accounts and annual reports are disclosed by filing in a collection of documents of the Commercial Register, the disclosure duty relates to all information
Income Tax Act	
– information duty toward the Ministry of Finance ¹¹	Annual accounts (drawn up in single-entry accounting or double-entry accounting) are submitted in two copies to the pertinent tax authority
Securities Act	
– disclosure duty of an issuer ¹²	Annual accounts are a constituent of half-year and annual reports of an issuer
Stock Exchange Act	
– contents and disclosure of a listing prospectus ¹³	Annual accounts are a constituent of a listing prospectus
Collective Investments Act	
– disclosure duty of an asset management company, half-year and annual reports ¹⁴	Annual accounts are a constituent of half-year and annual reports of an asset management company

³ Act No. 455/1991 Z.z. on tradesmen business (Tradesmen Act), full wording (Act No. 106/2002 Z.z.), Part Four, Chapter IV, Tradesmen Register (ZR).

⁴ Act 513/1991 Z.z. Commercial Code in the wording of subsequent regulations, Chapter III, Paragraph 27, 28 Filing into a Register, Paragraph 28a) Collection of Documents, and Paragraph 28b.

⁵ Reconstructed Regulation No. 100/1993 on the Commercial Bulletin, Paragraphs 2 and 3. The Commercial Bulletin publishes information the publication of which is governed by the Commercial Code (Paragraph 769) or another law (Bank Act, Accounting Act, Civil Court Order). Publication of the bulletin is provided for by the Ministry of Justice of the Slovak Republic.

⁶ Act No. 540/2001 Z. z. on national statistics, Paragraph 20 Statistical Registers.

⁷ Act No. 511/1992 Z. z. (full wording of Act No. 171/2001 Z.z.) on administration of taxes and fees, Part Two, Preparatory Proceedings, Paragraph 31 Registration and Reporting Duty of Tax Entities.

⁸ Paragraph 40 of Act 513/1991 Z.z. Commercial Code in the wording of subsequent regulations.

⁹ Paragraph 20 of Act No. 431/2002 Z.z. on accounting.

¹⁰ Paragraph 21 of Act No. 431/2002 Z.z. on accounting.

¹¹ Paragraph 38 of Act No. 511/1992 Z.z. full wording (Act No. 171/2001 Z.z.) on administration of taxes and fees.

¹² Paragraph 130 of Act No. 566/2001 Z.z. on securities and investment services.

¹³ Paragraphs 27 and 37 of Act No. 429/2002 Z.z. on the stock exchange.

¹⁴ Paragraph 53 of Act No. 385/1999 Z.z. on collective investments in the wording of subsequent regulations.



Legislative Framework of Information Disclosure

The framework for data and documents disclosure for the Slovak legislation is made up of several European Union directives; among the most important are¹⁵ the First Directive (68/151/EEC) and the Fourth Directive (78/660/EEC). Transparency rules for participants of the financial market also stem from principles of the OECD.

The First Directive

The First Directive aims to ensure protection of third party interests. It particularly emphasizes the purpose of providing to third parties the possibility to get acquainted with documents representing the fundamentals of a given company and identity of persons authorized to take on commitments. It specifies information filed into a register and the need is declared to:

- make the register available to everyone without prior knowledge of the business company,
- when requested, provide certified copies of registered data and documents,
- disclose data and documentation in a national government bulletin in full text or an excerpt, or a reference to an information file stored in a register.

Meant under disclosure is filing information in some public register and at the same time announcing this in some official bulletin, which can be done in the form of a reference to the information filed in the register. Disclosure pertains to only specific documents and data, member states can adopt more detailed legislation. The minimum scope of disclosed data and documents is established, binding for countries that have declared the disclosure duty. Legal effects of disclosure arise immediately after data and documents are disclosed¹⁶. Provisions about public information pertain to joint stock companies, trading companies, and limited partnerships whose member is a joint stock company. In national legislation they should be implemented as laws or regulations. The importance of the directive for the whole society has two aspects:

- aspect of monitoring (information easily accessible for those who request it),
- aspect of control (legal and substantive situation in a trading company can be checked at any time).

The legal norm, which, based on the effort of the Slo-

vak Republic for membership in the EU, should come close to provisions of the First Directive is the Commercial Code. It sets out what data about trading companies, cooperatives, foreign companies, or other legal entities established by law are filed in the Commercial Register. This public record is kept by a registration court, established by a special law, and entries and changes therein are disclosed in the Commercial Bulletin. Apart from the Commercial Register, three other registers have public character. Identification data of natural persons who are doing business based on a tradesman license are the content of the Tradesmen Register, into which tradesmen offices register business persons who are conducting their trade in the area of their jurisdiction. RES – register of economic entities (Register of Organizations) is kept by the Statistics Office of the Slovak Republic. Within a deadline set by law, a business person must register with the pertinent tax administrator.

The Fourth Directive

The aim of the Fourth Directive is an effort to unify and harmonize accounting documents. Its provisions are binding for joint stock companies, limited liability companies, trading companies, and limited partnerships in which the partner providing unlimited guarantee is not a natural person, and partnerships limited by shares. It defines principles¹⁷ for drawing up annual accounts, as well as:

- constituents of annual accounts – the balance sheet and the profit and loss account, and the notes to accounts,
- a document drawn up obligatorily – an annual report indicating the state of the company¹⁸,
- optionally drawn up other documents and monitoring of other data (cash flow).

¹⁷ It also defines participating interest – holdings in other companies serving own economic activity by creating a durable link with these companies; they need not be represented in certificates. A criterion of participating interest is more than 20 percent of capital in another company. In connection with this provision, a company must disclose in the contents of notes to accounts or file in the form of a report pursuant to Directive 68/151/EEC data about participating interest: name and registered address of companies, share of capital, volume of own capital, economic result for the last accounting period. Member states can set the share the exceeding of which presumes the existence of participating interest at 20 percent at most, they can agree to omit data in notes to accounts when this could cause a serious damage to one of the companies.

¹⁸ It must show at least the course of economic activity and the state of the company so as to provide a picture corresponding to the real situation. It should contain data about events of special importance that occurred after the end of the accounting period, information about likely development of the company, activities in research and development, and information about acquisition of own shares (Article 22 of Directive 77/91/EEC).

¹⁵ Consolidated financial statements are governed by Directive No. 7 (83/349/EEC), branch offices of economic entities Directive No. 11.

¹⁶ The question arises here whether access to a register can be deemed equivalent to promulgation of data in a bulletin.

Volume criteria are important from the viewpoint of drawing up, verification, and disclosure of annual accounts, which are used to divide companies to:

- small (balance sheet total EUR 2.5 million, net turnover EUR 5 million, average number of employees 50),
- medium sized (balance sheet total EUR 10 million, net turnover¹⁹ EUR 20 million, average number of employees 250),
- large.

Based on regulations of member states, small companies can be permitted to draw up abridged balance sheets and profit and loss accounts and notes to accounts, and they do not have to draw up an annual report²⁰. Medium-sized companies²¹ can draw up abridged profit and loss accounts. There are no exemptions for large companies.

Subject to auditing are annual accounts (balance sheet, profit and loss account, notes to accounts) The following documents are disclosed:

- duly approved annual accounts, together with it duly approved proposal for appropriation of profit or the treatment of loss and the appropriation of profit or the treatment of loss, if it does not contain this data,
- annual report of a company, whereby member states may permit annual reports not to be disclosed in a way stipulated in Directive 68/151/EEC.
- a report of a person entrusted with auditing the annual accounts.

According to the valid legal regulations in the Slovak Republic, the duty to disclose, present, or announce financial data by companies depends on their legal form (this is also linked with the use of an accounting system) and depending on whether they are issuers of securities or not. For accounting units that keep their books in the system of double-entry accounting or single-entry accounting, information output has the form of accounting reports. Annual accounts are a structured presentation of facts that are the subject of accounting, provided to persons that use this information (hereinafter “users”)²²

An accounting unit is obligated to use double-entry accounting with an exception stipulated by law²³. Apart

from general data, annual accounts in the double-entry accounting system²⁴ contain these components:

- balance sheet,
- profit and loss account,
- notes to accounts.

Individual annual accounts must be verified by an auditor²⁵ in all joint stock companies, trading companies, if they are obliged to create registered capital and cooperatives, when in the year preceding the one to which the annual accounts are verified, they met at least two of three conditions:

- the sum of their commercial assets exceeded SKK 20 million,
- their net turnover²⁶ exceeded SKK 40 million,
- the average number of their employees exceeded twenty.

A trading company that must have its annual accounts verified by an auditor is obligated to draw up an annual report that must also be verified by an auditor²⁷. An annual report contains annual accounts for the accounting period and an auditor’s statement to these annual accounts, and in particular the following information:

- a) about the development of activities of the accounting unit and its financial situation for at least two preceding successive accounting periods,
- b) about events of special importance that occurred after the accounting period ended for which the annual accounts were drawn up,
- c) about presumed future development of activities of the accounting unit,
- d) about costs of research and development activities,
- e) about acquisitions of own shares, temporary certificates, participating interest, and shares, temporary certificates, and participating interest in the entity exercising control over the company,
- f) about a proposal for the appropriation of profit or the treatment of loss,
- g) about data required under special regulations,
- h) about whether the accounting unit has an organizational unit abroad.

¹⁹ Turnover from sale of goods typical for the current economic activity and sale of services typical for the current economic activity after a deduction of items reducing turnover, VAT and other taxes, pertaining to turnover.

²⁰ Under the condition that information about acquisitions of own shares are declared in the notes to accounts.

²¹ Exemptions for small and medium-sized capital companies are regulated in the Directive of November 8, 1990 (90/604/EEC).

²² Paragraphs 2 and 17 of Act No. 431/2002 Z.z. on accounting. An accounting unit is obliged to draw up its annual accounts not later than six months from the date to which it draws up the annual accounts (exemptions – special regulation).

²³ Paragraph 9, Subsection 2 of Act 431/2002 Z.z. on accounting.

²⁴ Annual accounts in the single-entry accounting system has, apart from general particulars, the following components: (a) statement of revenues and expenses, (b) statement of assets and liabilities.

²⁵ Paragraph 19 of Act 431/2002 Z.z. on accounting. Annual accounts must be verified by an auditor until the end of the accounting period following the one for which these are drawn up (exemptions – special regulation).

²⁶ It is defined as the sum of revenues from the sale of goods and revenues for the sale of own products and services. The law also precisely defines commercial assets and the number of employees.

²⁷ Paragraph 20 of Act 431/2002 Z.z. on accounting. An annual report must be verified by an auditor until the end of the accounting period following the one for which these are drawn up.



For accounting units inscribed in the commercial register, the law requires the same degree of transparency²⁸. They are obliged to:

- disclose in the Commercial Bulletin²⁹ data from the annual accounts verified by an auditor that relate to all information from the annual accounts³⁰ and the annual report (exceptions to which confidentiality applies are set out in a special regulation),
- disclose annual accounts and the annual report by filing³¹ them into the Collection of Documents of the Commercial Register within thirty days of their approval (the annual accounts can be filed as part of the annual report).

According to the valid legislation, the highest degree of transparency is required from joint stock companies, issuers of publicly tradable securities, which have the duty:

- to draw up and publish within a set deadline a listing prospectus,
- submit to the Financial Market Office (UFT) and the stock exchange within two months after the end of the calendar half-year a midyear report³² and not later than within five months of the end of the calendar year an annual report³³,

- during the year, report to the UFT without unnecessary delay changes of its financial situation or other circumstances that can cause a major change of the price of securities issued by the issuer or worsen its ability to meet its obligations from the securities issue (when this is an issuer of securities issued based on a public offer)³⁴,
- disclose half-year and annual reports as well as changes in their financial situation or other circumstances in the national daily press that publishes stock exchange news,
- without delay inform the stock exchange of changes in its financial situation or of other circumstances that have significant influence on the price of securities issued by the issuer or can worsen the ability of the issuer to meet its commitments from the securities issue,
- provide to the public for examination at the registered address of the issuer half-year and annual reports,
- announce in writing within the set deadline³⁵ to the central depository³⁶ (the Securities Center), the issuer, and the UFT when set limits are overstepped (declined) as well as the size of their stake³⁷. Legal and natural persons acting in agreement have the same duty.

Accounting statements, the balance sheet and the profit and loss account that are submitted within the set deadlines to the pertinent tax office with an income tax return in two copies together notes to account in one copy are electronically processed in the company DATACENTRUM. The nonpublic database is used commercially and noncommercially – for needs of organs of the state administration.

How Slovak Companies Fulfill their Disclosure Duty

The need to gather and use available information about the external environment has gained recognition in the management of many companies also under our

²⁸ Paragraph 21 of Act 431/2002 Z.z. on accounting. A trading company may not disclose information that were not previously audited in a way that could mislead a user that they were audited. All provisions of Paragraph 21 also relate to disclosure of data in consolidated annual accounts and consolidated annual reports.

²⁹ Commercial Bulletin is established as a public information source by Government Regulation No. 100/1993 Zb.

³⁰ A form published in the Commercial Bulletin No. 8 of 1996 contained the minimum scope of data that should be disclosed pursuant to the Ministry of Finance of the Slovak Republic Guideline No. 65/96/1994, which set out the accounting procedure of accounting units pursuant to FMF guideline No. V/1-31/388/1992. The whole scope of data should be disclosed pursuant to the Ministry of Finance of the Slovak Republic Guideline No. 4455/2003/92 of March 31, 2003, which establishes particulars of arrangement, identification, and content of items of individual annual accounts and the range of data from the individual annual accounts for disclosure for entrepreneurs who keep their books in double-entry accounting. Validity of the guideline from April 10, 2003.

³¹ Discrepancy between the Accounting Act and the Commercial Code. The Accounting Act identifies filing with disclosure. Pursuant to the Commercial Code (Paragraph 769) the disclosure duty under the Commercial Code is observed by publication in the Commercial Bulletin.

³² Paragraph 77 of Act 566/2001 Z.z. on securities and investment services. A midyear report must contain midyear accounts for the past half-year and an auditor's statement if the midyear accounts were audited, a report of the financial situation in an extent pursuant to Paragraph 123, Subsection 1, Letter c) of the aforementioned law for the past half-year, a description of important factors that influenced the business activities of the issuer and its economic results for the period to which the midyear report relates.

³³ Paragraph 77 of Act 566/2001 Z.z. on securities and investment services. An annual report must contain annual accounts verified by an auditor, a report of the financial situation in an extent pursuant to Paragraph 123, Subsection 1, Letter c) of the aforementioned law,

and information about profit distribution, information about anticipated economic and financial situation in the coming calendar year.

³⁴ Paragraph 130 of Act 566/2001 Z.z. on securities and investment services.

³⁵ Paragraph 113 of Act 566/2001 Z.z. on securities and investment services. The deadline is set of within three working days following the acquisition of these shares, the content of the announcement is established by law.

³⁶ A central depository is obligated to publish data in the announcement (with the exception established by law) in the national daily press that publishes stock exchange news, within two working days after this announcement was delivered.

³⁷ When a legal or natural person acquires a share of voting rights linked with shares of an issuer of listed securities that represents more than 5, 10, 20, 33, 50, or 66 percent of all voting rights linked with shares of one issuer of listed securities.

conditions of transformation much sooner (though reserves still exist) than acceptance of the need to contribute to the origination of these information by providing data about their own company, against which there is often resistance on the part of managers here. In order to avoid an information vacuum, legislation enacts that company data is public, available to everyone, which does not mean however that it must be made available free of charge. This includes identification and financial information and some additional data.

Legal regulation is necessary also to ensure that required information is provided in the same structure, which provides a basis for their comparability.

Though by continual improvements, legislation is approaching the framework represented by directives of the European Union and principles of the OECD³⁸, nevertheless, enforcement of company law in Slovakia remains the weakest among countries of the Visegrad Group. Sanctions set out by law are seldom applied in cases when legislation³⁹ is not observed that regulates the disclosure duty of companies. Joint stock companies that do not draw up annual reports and do not disclose annual accounts in the prescribed extent are not uncommon in Slovakia. Disclosure duty of limited liability companies, with the exception of filing annual accounts in the Commercial Register, is hardly control-

Overview of information sources about Slovak companies, branches, and legislation

Basic information about companies	Information from the capital market	Integrated information systems				Macroeconomic environment data	Legislation	Sources of miscellaneous information
		Based on registers of the Commercial Bulletin	Based on a combination of available resources	Based on commercial information	From other sources (ranking, branch analyses)			
Public registers (statistics, commercial, tradesmen, collateral) www.orsr.sk www.zrsr.sk www.notar.sk	Bratislava Stock Exchange www.bsse.sk	Infosystem Slovakia www.europrint.sk	Creditreform www.creditreform.sk	European databank Hoppensted Bonnier www.edb.sk	Analyses of the financial market (GFK Slovakia, TNS, KNO, etc.) www.gfk.sk www.kno.sk	National Bank of Slovakia www.nbs.sk	Ministry of Justice of the Slovak Republic www.justice.gov.sk	Monitoring of the daily press, the Internet and electronic media (Storin, Newton, Slovakia On-line, SymSite Research) www.storin.sk www.newtons.cz www.symsite.sk
			Coface Intercredit www.cofaceintercredit.sk					
Commercial Bulletin, Public Procurement Bulletin, Bulletin of the Financial Market Office www.justice.gov.sk www.zbierka.sk www.epi.sk www.junkers.sk	Securities Center www.scp.sk	Obvest www.junkers.sk	Dun & Bradstreet www.edi.cz	Kompass www.kompass.sk	Branch analyses, SRA www.slovakranting.sk	SUSR www.statistics.sk	Electronic Collection of Laws www.junkers.sk	
			Financial portal INFIN www.infin.sk	Slovak Chamber of Commerce and Industry www.sopk.sk	Branch analyses, SymSite Research www.symsite.sk	Cabinet, ministries www.government.gov.sk	ASPI www.aspi.sk	
Annual report www.ineko.sk	Financial market Office www.uft.sk	Albertina Company monitor www.albertina.cz	Universal Register of the Slovak Republic www.ur.sk	Commercial associations and federations www.zsps.sk	Branch analyses and rankings Trend www.etrend.sk	Bank analyses www.banky.sk	JURIX www.zbierka.sk	News monitoring of press agencies (TASR, SITA) www.tasr.sk www.sita.sk
					Amadeus www.bvdep.com			



lable in practice, unless this is a “cross check” on the part of several entities. Virtually no financial data is available about entrepreneurs – natural persons, whereby classification of these entities by revenues represents the basic approach to segmentation used as a standard by banks.

In the following articles we will deal in detail with selected groups of resources and their comparison in view of content, access to information, frequency, updating, as well as other current issues.

³⁸ Principles in the area of “Corporate Governance” – management of trading companies – of the OECD pertain to five areas: (1) shareholder rights, (2) equal treatment of shareholders, including minority and foreign shareholders, (3) role of partners, (4) disclosure of information and transparency (disclosure of information about operating results, goals of the company, majority and minority shareholders, and voting rights, board members and management, remuneration policy, significant and predictable risk factors, major problems related to employees and other partners, disclosure duty about

acquisition of a part of a company, acquiring at least 10 percent of shares of a company must be announced to the public), (5) responsibilities of bodies (boards) of a company.

³⁹ Paragraph 38 of Act No. 431/2002 Z.z. on accounting. A fine for not observing provisions about the annual report (Paragraph 20) and about the disclosure duty (Paragraph 21) can be imposed by the tax office up to 3 percent of the total sum of assets, and this within three years after the end of the accounting period during which a violation of duty has taken place.