

Accounting and Financial Aspects of the Law on investment funds and the Law on trade companies in Republic of Macedonia



Economy

Keywords: capital market, securities market, Law on investment funds, Law on trade companies, harmonization of the regulation, financial risk.

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Abstract

Objectives: The objective of this paper is to consider the accounting and financial aspects of the Law on investment funds and Law on trade companies in Republic of Macedonia, their coordination with the regulation of the European Union as well as domestic legal regulation. **Methods:** Throughout the methodological analyses it is considered legislation of these laws for regulating the securities market in Republic of Macedonia and their constant improvement and agreement, introduction of principles which are base of the work of these laws, resolutions which are offered for animation and development of the securities market in Republic of Macedonia and their influence on the economy development and development of the capital market in the country. **Results:** With legislation of these laws, legal framework and order is put in the relation to the market in the country, legal, ownership insurance, attracting foreign investments, as well as permanent agreement with the legal regulations in the European Union with aim domestic investors as well as foreign to gain confidence in the institutions and protection of their ownership in the country. **Conclusion:** With continual improvement and agreement of the legal regulative Republic of Macedonia in a big extent includes and agrees with the European capital market and gain good background for permanent growth and development of the economy.

Introduction

The legal framework of the investment funds in Republic of Macedonia is the Law on Investment Funds from 2002, where open-end and closed-end investment funds are defined. Important changes are made with amendments of the Law on investment funds from 2007, for establishing private funds. In the beginning of 2007 new Law on Investments Funds has started to enforce. In January 2009 in Macedonia new Law on investments funds is promulgated (Official Gazette of Republic of Macedonia no. 12/2009).

Principles which are based the work of the new Law on investment funds are:

- Harmonization of the European Union's regulation
- Further liberalization of the section and
- Regulation of risk exposition.

Investment funds are bound funds aimed for investing, gathered through public call or private offer, with which on account on investors govern the investment fund management companies.

The investment fund offers you one solution and that is: when you will put the money in the fund, that money joins with the money of the other investors to produce bigger purchasing power from the one which you already have if you invest by yourself.

One fund posses portfolio from hundred different securities and due to that their successes doesn't depend on the increase or decline of one or two shares.

Investment fund as professionally governing investment fund is established due to mutual funds from home or foreign natural and/or legal entity, which than are invested in the capital market in various securities: shares, bonds, entries and etc. With the assets from the fund the investment funds management company governs. According to the investments the investments funds are divided between: investment funds for shares and investment funds for bonds.

Investment funds for shares made their investments in shares. The share in which the funds invests are different depending on the fund's aim-shares in the good standing companies, shares in companies which are oriented towards growth and development. The successful investing in company's means that the fund invests in share which price is increased on capital market or in shares of companies which realize the benefit and the same is allocated as dividends.

The deposit bank exercises the following things: maintaining the company property; providing funds for selling parts of the fund or fund's shares immediately to be paid on special open fund account of the bank and other things in accordance with the agreement made with the company.

The deposit bank in its own name and on behalf of the owners of the documents for share accomplishes their requirements towards the company.

The Securities and Exchange Commission of Republic of Macedonia controls the work of all the subjects, which subject of working is regulated by the Law on Investment Funds.

Amendments on the Law on investment funds should be in direction of complete agreement with the European guidelines which regulate the work of the investment funds. It should be made liberalization on establishment and working of the investment funds.

With implementation of the Law on investment fund should be accomplished:

- Professional management of the portfolio. Throughout the activities of the investment fund management company, the investment funds offer permanent professional management with assets of the fund on manner and with expertise which bigger number of small investors couldn't independently to allow , due to lack of experience or professionalism in the field.
- Diversification. Investment funds invest in different forms of acts (securities, deposits or derivatives) which decrease the investment's risk, so at the same time taking care for realization of bigger rate of contribution for members of the fund.
- Low charges. Independent establishment and management with the individual portfolio of one investor could be more expensive, than entrusting work with securities on professional managers in the fund.
- Absolute liquidity of the investment. Investing in the fund increased for the income could by the will of the investor simple and fast to be draw out with purchase of the investment units, especially the shares of the same fund.
- Quality and timely informing of the investors regarding the estate's value on its parts in the open-end fund. Also, the fact sheet is a document which contains all the important data for one fund, its structure, strategy and policy for leading the fund, which obligatory is published from the Securities and Exchange Commission, before starting investing in particular fund.

With the Law on amendments on Law on investment funds (Official Gazette of R.of Macedonia no.24/2011) the following amendments are made:

For offences determined by the Law on Investment Funds, certified persons for conducting control from the Commission, through determination of the offence, they are required to offer procedure for alignment to the offender, before they request an application for misdemeanor procedure.

Penalties are introduced in value in euros expressed in denars.

Accounting and Financial Aspects of the Law on Trade Companies

With the Law on trade companies business accounting, annual account, financial reports and consolidated financial reports for trade companies are regulated.

In the first part of the Law on trade companies are given definitions for terms which can be found on many places in the Law. In the first article are declared questions which are regulated by law and in the second article are declared subjects on which the Law is implemented.

In the second part of the Law on trade companies are systemized the members with who the general questions of the merchant are regulated. It is broaden the opportunity for the merchant to exercise the activities, determined by the National Classification of Activities.

The third part of the Law on trade companies is composed of articles with which the merchant-individual is regulated.

In the fourth part of the Law on trade companies are systemized four main mutual regulations for trade companies, for the merchant-individual, for representation, for the trade registry and procedure of admission. The fifth part of the Law on trade companies is systemized in eleven chapters.

In the seventh chapter in the fifth part of trade books, annual accounts and financial reports are regulated. The regulation in this chapter is agreed in the fourth, seventh and eight guidelines which contain the rules which together composed so called codex of the European balance right.

In accordance with the Law on trade companies every merchant is obliged to conduct accounting and to apply annual account on manner determined by the Law on trade companies and Rulebook for conducting accounting, which is further developed.

According to the Law on trade companies every big and average merchant, the merchants determined by law, as well as merchants who execute bank activities, insurance activities, merchants who are rated on the share stock, as well as merchants whose financial reports take part in consolidated financial reports on previously mentioned merchants, they have duty to prepare and to apply financial reports in accordance with the adopted international accounting standards published in the Official Gazette of Republic of Macedonia.

In the Law on trade companies is clearly made distinction between the annual accounts of the financial reports. The main user of the annual accounts further will be the country (through the tax report) concerning the annual reports are base of the preparation for tax balance, their format and content are stipulated by regulations. Their final aim is for tax purposes, but not the aims of financial informing.

The main user of the financial reports are trade companies, particularly the public composed of investors and creditors (home and foreign), who want to be informed for working of the companies and because of that, they should be able to read their financial reports to decide particular business decision (hence and insisting on the internalization of the accounting standards particularly on the standards of financial informing). The aim of these reports is clearly reflected and with naming of the international accounting standards in the international standards for financial informing.

The Law on trade companies determines that the following companies should prepare annual/consolidated accounts in accordance with the international standards for financial informing as published in the "Official Gazette of Republic of Macedonia" no. 59/2009, 164/2010 and 107/2011. (International

accounting and financial information in accordance with the Rulebook for conducting accounting (Official Gazette of R. of Macedonia no.159/2009,164/2010 and 107/2011)

- Big enterprise
- Medium enterprise
- Banks
- Insurance companies
- Companies which quoted on the stock exchange and
- Company which are part of the consolidated accounts of some of the above-mentioned companies.

The regulations of the Law on trade companies in relation to the conducting accounting, classification of merchants, trade books, annual accounts and financial reports are enforced on:

- 1) Merchant (by the activity, form, nature, size of the activity, registration);
- 2) Legal entities with residence in R. of Macedonia who conduct activity determined by the national classification of activities, if with other law is not differently determined.
- 3) The merchants-individuals and other natural entities who conduct activities, if with other law is not differently determined.

On the merchants individuals is not implemented the part of the financial reports.

The trade companies are obliged to submit annual accounts to the Center Registry of R. of Macedonia. The annual accounts should allow analyses on the coefficients, liquidity, solvency, profitability, debt versus own capital and other coefficients for the state and work of the company.

Annual accounts and consolidate which are submitted to the Public Revenue Office and registering in the Central Registry are shorten. That kind of shorten reports can mislead the investors and other users. The Law on trade companies demands annual accounts (balance sheet, balance of the success and report from legal entity) are submitted to the Public Revenue Office and to register to the Central Registry at last two months till the end of the year. Substantially, the forms are shorter version of the full annual accounts and consolidated accounts (for example, the report for cash flow and explanation is not demanding). Despite that, the Central Registry only collects the shorten and consolidated annual accounts, without checking their coordination with the conditions of financial information.

Law on trade companies foresees substantial bigger transparency (in relation to the publication of the information related with the working of the company and general financial state, as well as in relation to the refunds of the executives equally) bigger protection on the shareholders, simpler registration of the companies, and for the medium and big enterprises- the accounting standards which are in accordance with the international accounting standards. During setting the Law on trade companies we had in consideration solutions accepted by the laws on trade companies which were executed by the countries that became the new members of the European Union or have submitted membership application (Slovenia, Croatia, Bulgaria, the Czech Republic and other) as well as other contemporary trends in the development of the trade law with aim insurance of the investor's state (shareholders) to regain their confidence, especially after the big scandals that happened in USA and Europe (Enron, Verold, Kom, Vivendi, Parmalat and etc).

A framework is established with which duration of preparation the required documentation is shorten and processing of the data for company registration. The new framework is structured on a manner which will support leaving the procedure for registration of the company from the registered courts whereupon the conditions are eliminated these sellers to fulfill the complex accounting standards.

It is established new national, electronic and publicly available trade register lead by the Central Registry. The people wouldn't be limited any more for manual search of the court files.

Despite simplification of this registration procedure, Law on trade companies enacts regulations for supporting the Single Window system. The aim is to consolidate submission of the required documentation for companies and issuing of all confirmations and approvals, with which the required procedures for one company to become and continue to function are minimized. The main aim is company to exercise all the administrative procedures on one place and in the same time.

In the Law are entered stipulations with which is provided transparency of the procedure for realized statute changes of the company, protection of the companions, respectively shareholders, as well as companions. The Law limits the right of establishing any form of trade companies from domestic and foreign natural and legal entities, while they were reckless and dishonest and don't fulfill their liabilities towards other persons, the country, Retirement Fund, Health Insurance Fund and other subjects.

The accounting in Macedonia is regulated by the Law on trade companies (Official Gazette of Republic of Macedonia no: 28/2004, 84/2005 and 25/07) and the Rulebook for conducting accounting (Official Gazette of Republic of Macedonia no.94/2004, 11/2005 and 116/2005)

The accounting in Macedonia is regulated with the Law on trade companies (Official Gazette of Republic of Macedonia no.28/2004,84/2005 and 25/07) and the Rulebook for conducting accounting (Official Gazette of RM no.159/2009,164/2010 and 107/2011):

The Law on trade companies defines five types of companies:

- Companies with unlimited liability
- Limited partnership
- Company with limited liability
- Join stock company and
- Limited partnership with shares

Law on trade companies defines the threshold for determining the extent of the companies: big, medium and small enterprises.

The classification of the enterprises is based on the threshold given below:

Type of enterprise	Small	Medium	Big
Thresholds			
Number of employees	Under 50	Under 250	Above 250
Annual income	To 2.000.000 Euros	To 10.000.000	Above 10.000.000
Average assets	To 2.000.000 Euros	To 11.000.000	Above 11.000.000

Remark: For small and medium merchants needs to be satisfy at least two from the possible three thresholds. The Law on trade companies determines that the following companies need to prepare the annual/consolidated accounts in accordance with the International Standards for financial information as published in the Rulebook for conducting accounting (Official Gazette of RM no.159/2009,164/2010 and 107/2011):

- Big Enterprises
- Medium Enterprises

- Bank
- Insurance companies
- Companies which quoted on the stock exchange and
- Company which are part of the consolidated accounts of some of the above-mentioned companies.

The general attitude between the factors is that the International standards for financial information are overweight for the small and medium enterprises and that the managers and the one who prepare the accounts for small and medium enterprises don't have the abilities and expertise to enforce. Because of that, in accordance with the *acquis communautaire* it is required simpler framework for financial information of small and medium enterprises, which satisfies the needs of the target users and the capacity of the makers.

From the other laws which are applied on the securities market in the Republic we should mention and:

- Law on manner and procedure for payment of deposit foreign exchange deposit on which guarantees Republic of Macedonia.
- Law on issuing bonds of Republic of Macedonia for denationalization.
- Law on foreign exchange working

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