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Corporate Governance 2022

North Macedonia: Law & Practice
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NORTH MACEDONIA

Law and Practice

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1. INTRODUCTORY

1.1 Forms of Corporate/Business Organisations

The governing Law on Trade Companies defines a trade company as a legal entity wherein one or more persons have invested cash, things or rights used for joint operation and who jointly share the profit or loss arising from the operation. The trade company independently and permanently performs an activity, to gain profit.

There are five legal forms of trade companies: general partnership, limited partnership, limited liability company (LLC), joint-stock company (JSC), and limited partnership with shares. Typically, trade companies are organised as an LLC and JSC.

A trade company can be incorporated only in a form and manner determined by the Law on Trade Companies. Founders are free to choose the type of trade company, unless otherwise determined by law, where mandatory form is required.

LLCs are privately held companies, like “closed corporations”, with the Law on Trade Companies determining the maximum number of shareholders (up to 50), as well as granting statutory right of first refusal (pre-emptive rights) to the shareholders in the case of the sale of shares.

JSCs may also function as privately held companies, though they are subject to stricter corporate governance rules and reporting requirements than LLCs. Further, depending on certain criteria stipulated in the relevant laws, JSCs may be “reporting companies” defined as a JSC that has carried out a public offering of shares, or has a principal capital of EUR1 million and more than 50 shareholders, excluding the listed companies on the Macedonian stock exchange (the MSE).

“Listed companies” are JSCs whose shares are traded on one of the trading tiers of the MSE.

1.2 Sources of Corporate Governance Requirements

Corporate governance requirements for all companies in the jurisdiction of North Macedonia are set out in the Law on Trade Companies. This is also the general law and principal source that governs the manner of the foundation of companies, requirements for their management and supervisory bodies, as well as shareholders’ rights and their protection.

Listed companies also need to comply with the MSE Listing Rules and to report on compliance with the disclosure obligations under the Corporate Governance Code for Listed Companies on the MSE. The new Corporate Governance Code was adopted in 2021 (the MSE Code).

There are few sectoral requirements applicable for commercial banks and insurance companies, which by law are mandatorily established as JSCs.

The Banking Law, adopted in 2007 and as further amended, sets the corporate governance framework for the commercial banks registered in the Republic of North Macedonia, by stipulating their mandatory management structure and authorising the National Bank of the Republic of North Macedonia (NBRM) to prescribe the best corporate governance rules in accordance with international standards. The NBRM has adopted the decision on good corporate governance rules for banks.

The same also applies for insurance companies, in accordance with the Law on Insurance Supervision, published in 2002 and as further amended, as they are under the supervision of the Insurance Supervision Agency.

1.3 Corporate Governance Requirements for Companies With Publicly Traded Shares

Though primarily set out in the Law on Trade Companies, corporate governance provisions for listed companies go a step further in requiring greater disclosure and transparency in convening shareholders' meetings, by way of which listed companies are obliged to publish information on their websites and the MSE. This allows the shareholders flexibility in appointing proxies while at the same time considering conflict of interest matters, as well as imposing stricter criteria regarding approval of the interested parties transaction, and stipulating a mandatory requirement for an auditor opinion on fairness whenever the transaction in question exceeds 10% of the assets value in accordance with the latest audit financial reports.

The Law on Trade Companies stipulates mandatory corporate governance requirements for these companies, including the most recent in relation to the obligation to submit a corporate governance statement for application of the corporate governance code of the stock exchange on which their shares are listed, and that applies in accordance with its listing rules.

For those companies listed on the MSE, they are obliged under the criteria stipulated in the MSE Listing Rules to consider the provisions of the MSE Code.

The MSE Code follows the "comply or explain" approach. As per the MSE Code, "this approach is intended to give companies some flexibility as regards adopting the good practices set out in the Code...". The MSE understands that not all practices are suitable for all companies, thus allowing that "in such cases, companies can choose not to comply with... the MSE Code."

If a company does not comply with the MSE Code, it must:

- explain in what way the company does not comply with the MSE Code and the reasons why, with reference to the company's specific circumstances;
- describe the actions it has taken instead of complying with the MSE Code to make sure it meets the objective set out in the relevant provisions of the MSE Code; and
- if the company intends to comply with the MSE Code in the future, specify when it expects to start doing so.

Those listed companies that are required by the MSE Listing Rules to "comply or explain" regarding the MSE Code must prepare an annual statement, the contents of which are specified in the MSE Listing Rules.

2. CORPORATE GOVERNANCE CONTEXT

2.1 Key Corporate Governance Rules and Requirements

No information is available on this topic.

2.2 Environmental, Social and Governance (ESG) Considerations

The MSE Code introduced a novelty in the Macedonian corporate landscape, by stipulating for the first time the ESG matters as a content of corporate governance, that "the supervisory and management boards shall cultivate a corporate culture that encourages a responsible attitude towards the environment and social issues; approve a strategy to promote sustainability; and ensure that their business model and risk management systems take account of the potential environmental and social impact of their activities."

Furthermore, the MSE Code stipulates, inter alia, that:

- the company shall have internal acts relating to its responsibilities for environmental and social issues and policies and procedures that enable it to identify material factors and assess the impact on the company's activities, which shall be reviewed at least annually by the supervisory and management boards, and shall be published on the company's website;
- in the annual report, the company shall report on issues related to environmental and social issues based on the principle of transparency and in accordance with relevant legal requirements and good international practices.

With this, reporting on ESG issues receives further transparency.

On a corporate governance level, the MSE Code stipulates that the management board should explain how the recommended action, on which the supervisory board's consent is required, is consistent with the company's environmental and social policies.

Further, performance measures and incentives should take into account relevant environmental and social issues, and the company's risk management system should include processes to identify and manage risks arising from environmental and social issues.

The MSE also adopted an ESG Reporting Guide, which "in addition to general guidelines for listed companies on the subject matter, is also designed as a specific tool for listed companies that will aim to be fully compliant with the new Corporate Governance Code."

3. MANAGEMENT OF THE COMPANY

3.1 Bodies or Functions Involved in Governance and Management

LLCs are managed by a manager or managers, appointed by the shareholders' meeting. If more than three managers are appointed, they may function as a management body, with the scope of authorisations and competences determined with the articles of association. The supervisory board is not a mandatory body, though the shareholders may opt to establish it, again with the articles of association. Shareholders' rights are exercised by the shareholders on meetings or through decision-making by way of correspondence.

The management of a JSC may be either a one-tier or two-tier management system. In a one-tier management system, the board of directors consists of executive and non-executive members as the governing body, while in the two-tier management system the functions of management and control are split between the management board and the supervisory board. Shareholders exercise their rights on shareholders' assemblies.

3.2 Decisions Made by Particular Bodies

The board of directors has the broadest authority in managing the JSC within its scope of operations, and acts in all circumstances, on behalf of the JSC, except for matters falling within the authority explicitly granted to its non-executive members. The executive members have the broadest authority to perform all activities related to management, implementation of decisions of the board of directors and performance of activities in the ordinary course of business.

The board of directors entrusts the company's representation to its executive members. The

board of directors cannot delegate decision-making on the following matters to its executive members, and the statute of the company may extend this list further:

- closure (termination) or transfer of an enterprise or a part thereof that participates with over 10% of the income of the company;
- reduction or expansion of the subject of operation of the company;
- substantial internal organisational changes of the company that are determined by an act of the company;
- establishing long-term co-operation with other companies essential for the company or its termination;
- establishment and termination of a trade company that participates with over one tenth of the share capital of the company; and
- establishment and termination of subsidiaries of the company.

The supervisory board in a two-tier management system supervises the management of the operations by the management board. Authorisations related to the management of the company may not be transferred to the supervisory board, unless otherwise provided by the Law on Trade Companies. The above-listed matters that cannot be transferred to the executive members of the board of directors are also matters that the management board may only decide upon following prior approval of the supervisory board.

The shareholders decide upon matters explicitly stipulated as matters under their competences – ie, there is no presumed authority of the shareholders' assembly to resolve matters. The involvement of the shareholders in the management and conducting of the company's operations, which are under the competence of the management bodies, is excluded unless otherwise determined by the Law on Trade Companies.

3.3 Decision-Making Processes

Management bodies (the board of directors, ie, the management and supervisory board) hold meetings when it is required for the performance of the activities in the scope of their competences. Any member of the management body can submit a written request to the president of the board (stating the reasons and the purpose) to request convening a meeting of the management body. There is also the possibility of deciding upon a matter without holding a meeting.

The decision of the management bodies is adopted by majority vote. In case of a tie, the president is considered as having a casting vote. The relevant statute may stipulate a higher majority for certain matters. The Law on Trade Companies stipulates the operating quorum by requiring at least half plus one of the management bodies' members to be present, with the additional requirement for the board of directors for the non-executive members to outnumber the executive members.

4. DIRECTORS AND OFFICERS

4.1 Board Structure

The board of directors has a minimum of three and a maximum of 15 members, all elected by the shareholders' assembly. When electing the members of the board of directors, it should be specified which members are elected as its independent members. The independent members of the board of directors are elected from its non-executive members. The board of directors, from among the elected members, appoints one or more executive members.

A member of the board of directors who is elected as an independent member cannot be elected as an executive member of the board of directors. The number of executive members should

be less than the number of the non-executive members of the board of directors. If the board of directors has up to four non-executive members, at least one of the non-executive members should be an independent member. If the board of directors has more than four non-executive members, at least one quarter of them should be independent members of the board of directors.

In the two-tier management system, the requirement for the number of members of the management board and the supervisory board is at least three and at most 11 members in each board. The same ratio for independent members applies for the supervisory board as in the board of directors. Here, the shareholders' assembly elects the members of the supervisory board, while the management board members are elected by the supervisory board.

Sectorial regulations, such as the Banking Law and Law on Insurance Supervision, provide further requirements for the board structure in commercial banks, ie, insurance companies.

4.2 Roles of Board Members

The board of directors, as well as members of the management board and the supervisory board, in accordance with their position determined by the Law on Trade Companies, have the same rights and obligations, regardless of how the rights and obligations are distributed among them within the board. They perform activities jointly in accordance with the authority determined by the Law on Trade Companies, and according to the matters entrusted to them in accordance with this law and the statute of the company. The statute may determine a different way of conducting and performing these activities, but only according to the authority of the members of the management body, ie, to the supervisory board determined in the Law on Trade Companies.

4.3 Board Composition Requirements/ Recommendations

Composition requirements and boards structure are presented in the answer to **4.1 Board Structure**.

According to the Law on Trade Companies, a non-executive member of the board of directors, ie, a member of the supervisory board, cannot be simultaneously elected in more than five boards of directors as a non-executive member, or in more than five supervisory boards of a JSC with a head office in the Republic of North Macedonia.

An executive member of the board of directors or a member of the management board can be elected in a maximum of five other JSCs with a registered seat in the Republic of North Macedonia, as a non-executive member as well as a member of a supervisory board.

The MSE Code stipulates further recommendations on board composition requirements, applicable to listed companies, should they choose to apply.

4.4 Appointment and Removal of Directors/Officers

Appointment of the Members of the Boards

The members of the board of directors and the members of the supervisory board of the JSC are elected at the shareholders' assembly by majority votes of the voting shares, out of the operating quorum for the meeting determined with the LTC, unless a higher majority is determined by the statute in the manner and according to the conditions determined therein.

Dismissal of the Members of the Boards

The shareholders' assembly may dismiss all members of the board of directors, ie, the supervisory board, or a particular member of these bodies, even before the expiry of their term of

office. The majority of the votes from the voting shares represented at the shareholders' assembly is necessary for the adoption of the decision for dismissal, unless otherwise determined by the LTC, or if a larger majority is determined in the company's statute.

Where the company has a two-tier management system, the members of the management board are elected by the supervisory board. One of the members of the management board is elected as a president of the management board, by the decision for election of the members of the management board.

The supervisory board may dismiss all members of the management board or a member of this body, at any time with or without an explanation.

Resignation of the Members of the Boards

A member of the management body or the supervisory board can submit a resignation at any time, by submitting a written notification to the body that has elected him, unless the interests of the company require otherwise. The signature of the member of the management body, ie, the supervisory board, on the resignation letter should be certified by a notary. Once filed, the resignation letter is final, and it is not subject to approval or acceptance as a precondition for its validity.

If the interests of the company so require, the management body, ie, the supervisory board, can oblige the member who has resigned to continue carrying out the office until the election of a new member in the management body, ie, the supervisory board, but for no longer than 60 days. The mandate of the resigning member terminates on the day of submitting the resignation letter, unless another date is stated therein. On the basis of the resignation letter, an application for deletion from the trade registry maintained by the Central Registry of the Republic of North

Macedonia (the "Trade Registry") of the resigned member is submitted by the company.

For listed companies, any change in the management bodies is considered as price-sensitive information, subject to disclosure requirements to the MSE.

4.5 Rules/Requirements Concerning Independence of Directors

The Law on Trade Companies defines an independent non-executive member of the board of directors, ie, the independent member of the supervisory board, as an individual who (or whose close family member):

- in the last five years has not had any material interest or a business relation directly with the company as a business partner, as a member of the management body, as a member of a supervisory body or as a managerial person;
- in the last five years has not received or does not receive additional incomes except for the company's salary;
- does not have a close family relationship with some of the members of the management body, the supervisory board or the company's managerial persons; and
- is not a shareholder owning more than one tenth of the company's shares or does not represent a shareholder owning more than one tenth of the company's shares.

The MSE Code stipulates further criteria that should be taken into consideration in addition to those criteria specified in law when a potential candidate is considered as an independent member, as follows, where the person:

- has been a member of the supervisory board for less than 12 years;
- is not a member of the immediate family of a person who in the last five years has been

- CEO or a member of the company's management board;
- is not affiliated with a company that provides consulting services to the company or its affiliated companies;
- is not a significant customer or supplier of the company or its affiliated company and is not a person affiliated with a significant customer or supplier of the company or its affiliated companies;
- is not a board member of a non-profit organisation which has received significant funding from the company or its affiliated companies; or
- in the last five years, has not been a partner or employee of an auditing company that conducted an audit of the company or its affiliated companies.

For any contract or other business activity of the company in which the company is a party and in which a member of the management body, ie, the supervisory board, has an interest, even in an indirect way, the procedure for approval of interested party transactions applies.

In such a case, the member of the management body/supervisory board that has an interest is obliged to report it immediately to the board of directors/supervisory board. Although the interested member has the right to be heard, he may not participate in the hearing or decision-making regarding the contract or other legal matter, or in the decision to grant the approval for such a transaction.

4.6 Legal Duties of Directors/Officers

The member of the management body/supervisory board shall be obliged to perform the authorisations given to him by the LTC and the statute, in the interest of the company and in the interest of all the shareholders, with due care and diligence, and cannot transfer their authority to another member of the management body/

supervisory board. Even when relying on the information, opinions or reports prepared by independent legal advisers, independent authorised accountants, authorised auditors, and other persons reasonably believed to be trustworthy and competent for the matters they perform, they are not released from their obligation to act with the prudence of a meticulous and conscientious commercial entity.

“Prudence of a meticulous and conscientious commercial entity” is a legal standard aimed at determining the liability of the persons responsible for management and supervision of companies, by which the prudence of the persons performing the entrusted tasks in the companies is determined as that they should act with the prudence of a skilful and (in the company's operation) competent person (professional), wherefore they are responsible for the ordinary negligence during the performance of the entrusted activities, unless another law specifies that they are liable only for gross negligence.

4.7 Responsibility/Accountability of Directors

The members of the management bodies and the supervisory board owe their duties to the company and are obliged to perform their authorisations in the interest of all the shareholders, with due care and diligence (standard of a meticulous and conscientious commercial entity).

The MSE Code requires that the members of the management board and the supervisory board take into account the interest of the company's stakeholders.

4.8 Consequences and Enforcement of Breach of Directors' Duties

Members of the management body who violate their obligations are jointly liable to the company for the caused damage, if they have failed to operate and act with due care and diligence.

Members of the supervisory board (ie, the non-executive members of the board of directors) are jointly liable with the members of the management board (ie, the executive members of the board of directors) for the damage caused, if they did not act with due care and diligence when giving their prior consent.

However, a member of the management body who acted on the basis of a decision adopted by the shareholders' assembly even though such a member had pointed out that the decision is contrary to the provisions of the Law on Trade Companies, as well as a member who was opposed to the decision by separating their opinion in the minutes of the meeting of the management body and voting "against" the decision, shall not be held liable.

The members of the management body shall, in particular, be liable for the caused damage if, contrary to the Law on Trade Companies, they:

- return to the shareholders their contribution in the company;
- pay interest or dividends to the shareholders;
- subscribe, acquire, take as pledge or withdraw the company's shares;
- divide the assets of the company;
- make payments after the company has become insolvent or has incurred over indebtedness;
- submit false annual account and financial statements;
- misuse and use without authorisation the assets of the company; and
- in the case of conditional increase of the principal capital, issue shares contrary to the purpose or issue shares before those of the previous emission were fully paid and subscribed for.

If the members of the management body fail to remove the irregularities of the actions stated

above, the shareholders are entitled to request damage compensation from the members.

If the member of the management body severely violates their responsibility to act with due care and diligence, the creditors of the company can request damage compensation provided that they have failed to settle their claims from the company.

The non-executive members of the board of directors, ie, the members of the supervisory board, are jointly liable with the executive members of the board of directors, ie, the members of the management board, for the damage caused, if they, when giving their prior consent, did not act with due care and diligence.

The right to realise the request for damage compensation becomes status-barred within a period of five years.

4.9 Other Bases for Claims/ Enforcement Against Directors/Officers

No information is available on this topic.

4.10 Approvals and Restrictions Concerning Payments to Directors/ Officers

The remuneration, fees or benefits payable to members of the management bodies are determined by decision adopted by the shareholders' assembly or by the contract regulating the relation between the company and its directors (managerial contracts with the executive directors, ie, the members of the management board).

By a shareholders' assembly decision, the monthly lump sum or the lump sum per meeting of the non-executive members of the board of directors, ie, the members of the supervisory board, is determined. These directors are also entitled to reimbursement of all other expenses (travel and other expenses), right to life insur-

ance and other types of insurance, as well as other rights related to the performance of their activities.

The executive members of the board of directors or the members of the management board are entitled to a salary, right to life insurance and other types of insurance, reimbursement of travel and other expenses, and other rights.

The shareholders' assembly may, by a decision, also approve the executive members of the board of directors or the members of the management board to participate in the profits. Such participation, as a rule, shall consist of a share in the annual profits of the company. The approved participation in the annual profits of the company is calculated on the basis of the portion of the distributable annual profits that remain after covering the losses and creation of legal and statutory reserves. Any decision contrary to this is null and void.

These rights of the executive members of the board of directors or the members of the management board can be determined by the contract regulating the relations between themselves and the company, in accordance with the type and scope of the responsibilities entrusted, the employment status, and their personal contribution to the successfulness of the operation of the company.

Regarding specially entrusted matters performed for the company, additional remuneration may be acknowledged to that member and paid out of the operating costs.

4.11 Disclosure of Payments to Directors/Officers

The annual report of the company should disclose the earnings of each executive member of the board of directors and member of the management board (salary, salary allowances,

bonuses, insurances and other rights), ie, the compensation of the non-executive members of the board of directors and members of the supervisory board, as well as detailed data on the earnings of management bodies in other companies (salary, salary allowances, membership compensations, bonuses, insurances and other rights) for all executive members of the board of directors, the members of the management board, the non-executive members of the board of directors, and the members of the supervisory board.

Further, provision of detailed data on employment – ie, employment with other employers (name of the employer, business activity, salary amount, salary allowances, bonuses, insurances and other rights) for the executive members of the board of directors, the members of the management board, the non-executive members of the board of directors, and the members of the supervisory board – should be mandatorily published in the annual report of the company.

5. SHAREHOLDERS

5.1 Relationship Between Companies and Shareholders

The shareholders, under equal conditions, have equal status in the company. Each concluded contract or any other legal activity undertaken by a shareholder, violating the rights and interests of other shareholders, is null and void, unless all shareholders provide their consent for such a contract or legal activity.

The Law on Trade Companies stipulates the provisions regulating the relationship between the shareholders and the company. For exercising shareholders' rights granted by this law and the company's statute, each shareholder has the right to be informed regarding the operation of

the company and the right to inspect the books, the acts and other documents of the company.

5.2 Role of Shareholders in Company Management

The role of shareholders in the management of the company is expressly excluded unless the law stipulates otherwise.

Shareholders are able to direct the management of a company to take, or refrain from taking, certain actions in the business, through their decision-making powers in certain circumstances, such as major transactions and interested parties' transactions.

5.3 Shareholder Meetings

The shareholders' assembly of the JSC is held on an annual basis.

The annual shareholders' assembly is convened by the management body no later than three months after the composition of the annual account, the financial statements and the annual report on the operation of the company for the previous business year, but also no later than six months after the end of the calendar year or 14 months from the last-held annual assembly.

However, when the interest of the company and the shareholders require so, the shareholders' assembly can be convened within the time period between two annual assemblies, in accordance with the rules set out in the Law on Trade Companies.

The managing body and the supervisory board, ie, the non-executive members of the board of directors, may by a majority vote of their members, on their own initiative or at the request of a shareholder, decide to convene a shareholders' meeting.

A request for convening a shareholders' meeting may be submitted by shareholders who have at least one tenth of all voting shares.

The shareholders' meeting may be convened by invitation or by announcing a public call (or both) to the shareholders, the content of which needs to be in accordance with the statutory requirements.

At least 30 days should pass from the date of the convening of the meeting before the date when the meeting is held.

5.4 Shareholder Claims

Please see the answer to **4.8 Consequences and Enforcement of Breach of Directors' Duties**.

5.5 Disclosure by Shareholders in Publicly Traded Companies

In accordance with the MSE Listing Rules, listed companies are obliged to publish a notification regarding all changes in the ownership of shareholders who have acquired 5% of the voting shares, and which contains the following information: the identity of the new owner, the number of shares and the percentage of the voting rights.

The shareholders of reporting companies are obliged to disclose the ownership of more than 5% of any type of securities issued by the JSC, by submitting a report to the Securities and Exchange Commission (SEC) and to the company within five working days from the day of the settlement of the trade transaction or the execution of the non-trade transfer of the securities.

Such a shareholder shall be obliged to submit a report to the SEC and to the JSC for each subsequent settlement, commercial transaction or performed non-trade transfer with securities issued by that JSC within five working days from

the day of registration of the trade transaction and non-trade transfer of securities.

If such a shareholder sells or otherwise alienates the securities, after which he no longer owns more than 5% of any type of securities issued by the JSC, the shareholder shall submit a report on the change of ownership.

Joint-stock companies and other legal entities – issuers of securities, whose securities are not listed on the stock exchange and are not kept in the register of joint-stock companies with special reporting obligations maintained by the SEC – are obliged to publish changes in the ownership structure over 10% on the website of the MSE.

6. CORPORATE REPORTING AND OTHER DISCLOSURES

6.1 Financial Reporting

Trade companies and a subsidiary of a foreign company prepare an annual account upon the expiry of the business year.

Each large and medium-sized commercial entity, commercial entities determined by law as performing bank activities and insurance activities, commercial entities listed on the MSE, and commercial entities whose financial reports are included in the consolidated financial reports of these commercial entities, are obliged to keep accounting in accordance with the adopted international standard for financial reporting published in the “Official Gazette of the Republic of North Macedonia”, as well as to also prepare financial reports.

Annual accounts are filed with the registry of annual accounts by the end of February, with a

possibility to file by 15 March if filed electronically, for the previous business year.

As per the MSE Listing Rules, different obligations to file periodic financial reporting requirements are imposed on listed companies.

6.2 Disclosure of Corporate Governance Arrangements

In the annual report on the operations of the company for the previous business year, the management body is obliged to objectively present and explain the main factors and circumstances which had an influence on determining operations, including:

- any changes in the environment in which the company operates, and the response of the company to such changes and their impact;
- the investment policy for maintenance and support of the successfulness of the operations of the company, including the dividend policy, the sources of the company’s assets, the policy of the long-term debt in relation to the basic capital and the policy of risk management;
- major transactions and interested party transactions with data regarding the amount of the transactions conducted on the basis of the deal with the interested party, name, surname and address of the interested party (if it is a natural person), or name and head office if the interested party is a legal entity;
- the assets of the company, the value of which is not covered in the balance sheet according to the international financial notification standards;
- the tendencies of the future development of the company and its business venture;
- activities in the field of research and development; and
- information in relation to acquisition of treasury shares, depending on the relevant circumstances.

The annual report of the company shall disclose the earnings of each executive member of the board of directors and member of the management board (salary, salary allowances, bonuses, insurances and other rights) and the compensation of the non-executive members of the board of directors and members of the supervisory board.

Detailed data on the earnings of management bodies in other companies (salary, salary allowances, membership compensations, bonuses, insurances and other rights) for all executive members of the board of directors, the members of the management board, the non-executive members of the board of directors, and the members of the supervisory board, should also be disclosed.

Detailed data on employment, that is, employment with other employers (name of the employer, business activity, salary amount, salary allowances, bonuses, insurances and other rights) for the executive members of the board of directors, the members of the management board, the non-executive members of the board of directors, and the members of the supervisory board, shall be mandatorily published in the annual report of the company.

The MSE Code further stipulates disclosure requirements for listed companies to which it applies, by requiring that, in addition to the mandatory content prescribed by law and the MSE Listing Rules, the company publish on its website:

- information about shareholder rights;
- the decisions taken at the shareholders' assembly and answers to questions raised at or before the meeting (this information should be available for at least five years);
- contact details for the designated shareholder's contact person;

- the internal acts setting out the responsibilities of the supervisory and management boards;
- the board profile of the supervisory board;
- the rules of procedure for the committees of the supervisory board;
- the company's code of ethics;
- the company's whistle-blowing procedure; and
- the company's environmental and social policies.

In addition to the mandatory content prescribed by law and the MSE Listing Rules, companies should publish in the annual report:

- the number of supervisory board meetings and attendance by board members;
- the actions taken to address gender diversity on the supervisory and management boards;
- the succession plan for the supervisory board;
- the composition of the committees of the supervisory board, the number of meetings and attendance by committee members;
- details of the remuneration of individual supervisory and management board members;
- details of other board positions held by members of the management boards;
- the name of the external auditor and details of any other services they provide to the company;
- a summary of the engagement with stakeholders undertaken during the year; and
- information on environmental and social matters.

6.3 Companies Registry Filings

The following data is recorded in the Trade Registry:

- the business name and the head office of the company;

- the scope of operations of the company;
- the amount of the principal capital and the number of the issued shares;
- the total number of paid-in shares;
- the name and surname, PIN, passport number (ie, the number of the identification card) if the founder is a foreign natural person, or other document aimed at determining the identity valid in his/her country and his/her citizenship, as well as the place of residence, ie, the business name, the head office, PINE, if the founder is a legal entity;
- the name and surname of all members of the management body, ie, the supervisory body, their PIN, passport number (ie, the number of the identification card) if the founder is a foreign natural person, or other document aimed at determining the identity valid in his/her country and his/her citizenship, as well as the place of residence, ie, the business name, the head office, PINE, if the founder is a legal entity;
- the duration of the company, if it is incorporated for a definite period; and
- the authorisations for representation of the members of the management body and of other persons authorised to represent the company.

Each change of the data referred to above, except for those items related to the shareholdings and shares (fifth item) that are registered with the Central Securities Depository and reflected in the shareholders' book of the company, is also subject to registration with the Trade Registry.

Any third party can access this information, as the Trade Registry is a public registry; therefore, these filings are publicly available, for a fee.

7. AUDIT, RISK AND INTERNAL CONTROLS

7.1 Appointment of External Auditors

The following trade companies are subject to a mandatory audit:

- large and medium-sized commercial entities registered as joint-stock companies;
- listed companies; and
- large and medium-sized commercial entities organised as limited liability companies.

Criteria for large and medium-sized commercial entities are provided in the law, and consider the number of employees, annual turnover, etc.

The company is obliged to have an audit opinion regarding the financial reports one month prior to holding the shareholders' meeting, ie, the assembly, at the latest.

7.2 Requirements for Directors Concerning Management Risk and Internal Controls

The Law on Trade Companies stipulates that the supervisory body of the JSC shall be obliged to organise an internal audit service, as an independent organisational unit in the company. Joint-stock companies shall be obliged to appoint an internal auditor. The organisational structure, rights, responsibilities and relations with the other organisational units of the company, as well as the responsibilities and the requirements regarding the appointment of the head of the internal audit service, shall be regulated by the supervisory body.

The MSE Code devotes a whole section to risk and control, by stating that "the supervisory and management board shall ensure that there are effective structures, policies and procedures in place to identify, report, manage and monitor the significant risks facing the company; that

the company complies with legal requirements; and that the internal and external audit functions are independent and effective.” The MSE Code emphasises the importance of the risk management systems and internal audit.

Polenak Law Firm is one of the market leaders in North Macedonia, and has continued the tradition of providing top-quality legal services since the first law office bearing the name Polenak was established in 1946. The firm has built its experience by acting as local counsel of multinational corporations, banks and international financial institutions. The number of transactions handled by Polenak makes it among the most experienced law firms in the market in banking, project finance, M&A deals, privatisa-

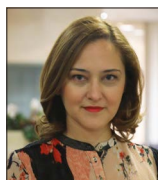
tion processes, competition and antitrust matters, aviation, energy, telecommunications and PPP. The knowledge and practice of the firm's litigation lawyers in criminal, civil and commercial cases is remarkable, and one of its prominent benchmarks. The affiliation with leading law firms from each jurisdiction in the region, joined together in the South East Europe Legal Group (www.seelegal.org), enables it to offer its clients coverage and superior legal services in the region.

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Kristijan Polenak is a managing partner at Polenak Law Firm and a legal expert with over 20 years of experience. He co-heads the firm's M&A and banking practice. His extensive record in

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