The Opening of the Stock Market of Angola and the Challenges for Companies at the Level of the Financial Reporting System and Corporate Governance

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ABSTRACT: This research aims to analyze the main requirements in terms of financial reporting and corporate governance mechanisms established by the Capital Market Commission (CMC) of Angola to companies operating on the capital market of Angola. Using a qualitative investigation approach, we conclude that, overall, Angola is providing itself with a legal framework that is in convergence with the major orientations of the international organizations, regarding the requirements made to entities operating in the capital market, in terms of governance and oversight of those corporations, of their financial reporting process. However, there is an urgent need for the CMC of Angola to orient or even advocate the mandatory adoption of the IASB's international accounting standards for entities operating (or intending to operate) in the capital market of Angola. At the Corporate Governance level, we found a fair convergence of the principles and recommendations of the CMC regarding the OECD Corporate Governance principles.

KEYWORDS: Corporate Governance; Financial Reporting; Capital Market; Angola

Introduction

The increasing globalization of the Angolan economy, with the resulting increase in competition, as well as the high external financing needs associated with the large industrial and infrastructure projects, recommends the adoption of models of
organization maximizing business increased competitive efficiency of enterprises, as well as strengthening the external credibility of the Angolan economy and business organizations (Bom 2014). On the other hand, the startup of the capital market in Angola in December 2014, with the opening of Stock Exchange and Debt Values of Angola, and the opening of the stock exchange on 15 November 2016, which initially will only Transact public debt securities, and forecast for brief from the beginning of the acceptance of stock trading, impose the adoption, by the Angolan companies, of good practices of Corporate Governance (Bom 2014).

Like in many developing countries, it is, therefore, necessary build a proper legal framework, sensitize civil society and Angolans business groups and implement Corporate Governance processes tailored to the ambitions of economic and social development of Angola (Fan & Wong 2005; Bom 2014). In addition to the participating entities of the capital markets of emerging countries is essential to enhance the quality of financial reporting of these entities by establishing greater demands in terms of accounting and financial reporting standards (including the increased disclosure of accounting and financial information) through the placing of financial statements to external audits (Fan and Wong 2005). Ball (2006) notes that the adoption of international accounting standards and financial reporting in emerging countries is a very important step to enhance the quality of financial reporting of companies based there. Then, this study aims to analyze the system level requirements of financial reporting and Corporate Governance mechanisms established by the Capital Market Commission of Angola to companies wishing to place their shares to trading on the Stock Exchange and Debt Values of Angola.

Methodology

In methodological terms, this study is an investigation of a qualitative character. The qualitative approach emerged as an alternative to positivist paradigm, to the extent that this sometimes proves ineffective to analyze and study the subjectivity related to the behaviors and activities of persons and organizations (Sousa & Baptista, 2011; Lee & Humphrey, 2006). Interpretive researchers strive to provide a thorough understanding of the environment in which to experience the problems studied, considering the perspective of one who lives (Paiva et al. 2011).

The research conducted in this study consisted of an exploratory research, adopting the methodology of case study, qualitative in nature, since it tries to understand, in addition of the phenomenon studied, the situation in which this was developed (Charoux,
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2006). To achieve the general objective of the study was used the bibliographical research and documentary research.

The bibliographical research was used to support the theory study, being based essentially on consultation of books and articles published in scientific journals, dealing with the implementation and development of capital markets in emerging countries. The documentary research was used as the data collection instrument.

The largest part of the collection of the documentation was made available on the website of the Capital Markets Commission (CMC), Stock Exchange and Debt Values of Angola, the Order of Accountants and Experts Accountants of Angola, international bodies linked to capital markets and the Accounting, among other sources, where they met relevant data for the continuation of the present research.

Case study
Requirements at the level of Governance and Oversight Structures
Listed companies quoted on a Stock Exchange of Debt and Values of Angola and the Corporate Governance Code of Angola

In Angola existed the Commercial Companies Code (CCC) (hard law), which forces business companies by quotas and open fulfil-liability with the requirements related to the practices of Corporate Governance, with the opening of the capital market, such a code was insufficient and something screw up with regard to some international practices of Corporate Governance suggested and required the entities with securities quoted.¹ Thus, the CCC was the target of changes (by modifying and revoking some legal provisions were in force) and was even introduced the Securities Code of Angola (supported in part by the CCC)². Thus, were established the legal provisions necessary for the effective compliance with the internationally accepted Corporate Governance practices and to be followed by entities wishing to place securities to official listing to Stock Exchange and Debt Values of Angola.

So, in addition to the provisions described in the Commercial Companies Code (CCC), the entities that intend to place securities to trading in Stock Exchange and Debt Values of Angola must also comply with Security Code. In addition, the entities with securities listed on Stock Exchange and Debt Values of Angola, the Security

¹ Law No. 1/04 of 13 February - the commercial companies code. Such international practices were recommended by the Organisation for Economic Co-operation and Development (OECD) and by IOSCO.
² Law 22/15, of 31 August – the Securities Code, which repealed the law nº 12/05, of 23 September that initially established the Securities Law.
Code provides for the existence of a Board of Directors composed of odd number, at least three members. On supervision of listed company, the Security Code predicts the existence of a fiscal Council shall be composed of independent members, on which it is required that at least one Member is an expert accountant or accountant. The Table 1 contains a summary of the structural model of governance and surveillance of open societies in Angola.

Table 1: Structure of governance and surveillance of Listed Companies in Angola

| Company governance                                                                 | Supervision of the company                                      |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------|
| • The management of listed company is exercised by a Board of directors consisting of odd number, of at least 3 members. | • The ruling on open society must be exercised by the Supervisory Board. |
| • May be appointed or elected people don’t shareholders to the Board of Directors.  | • The Supervisory Board shall consist of most independent members, and must include obligatory, a member that is an expert accountant or accountant. |
| • The security provided by the administrators of listed company (which may be by an insurance contract in favors of the holders of damages) may not be less than the kz: 30,000,000.00. | • Is considered independent person not associated with any group of interests of the company and is not in any circumstances likely to affect the exemption of your opinion, in particular, being holder or act in the name or on behalf of holders with higher participation or equal to 5% and be re-elected for more than two terms, continuously or interspersed. |
| • The Board of listed company has the function of establishing and maintaining internal control systems, considering the size of the company and the nature of your activity. |                                                                 |

Source: Own Elaboration (based on SC and CCC)

3 Expression that replaced the term previously named by “public society” (article 3, 136 and 112, paragraph 1 (a), b), c), (d)) and e) of the Securities Law).
4 Article 137, paragraph s 1 and 2.
5 Article 136 No. 1, the Security Code. In open societies can be agreed in the contract a single administrator, when the number of members is reduced to two, social capital is equal to or less than the US $50,000.00 (equivalent in local currency) and if it is determined by law (article 315 No. 2, CCC)
6 Article 136 No. 2, Security Code (SC).
7 Article 136 No. 3, Security Code (SC).
8 Article 135º, Security Code.
9 Article 137 paragraph 1 of SC. In open societies can be agreed in the contract a single administrator, when the number of members is reduced to two, social capital is equal to or less than the US $50,000.00 (equivalent in local currency) and if it is determined by law (315 No. 2, CCC).
10 Article 137 No. 2, Security Code.
11 Article 137 No. 3, Security Code.
In addition to updating the Commercial Code and the creation of the Security Code (hard law), the opening of the capital market spurred the creation of the Center for Corporate Governance of Angola (CCGA). The CCGA's mission is to reflect collectively, influence and stimulate the business agents to adhere to values and principles of Corporate Governance (CCGA, 2013). This letter was inspired by the Organisation for Economic Co-operation and Development (OECD) Corporate Governance Principles, considering that this document and its principles have been regarded as well accepted and suitable to the countries in transition and emerging countries (OECD, 2004; OECD, 2015).

Relatively listed companies, the CMC of Angola launched an Annotated Guide of Good Practices of Corporate Governance, non-mandatory, internationally recognized, where are laid down several principles that will help companies in capital markets the capturing more investments (CMC, 2015). Both the Letter of Corporate Governance of the CCGA as the Annotated Guide of Good Practice of Corporate Governance of CMC follow the Comply or Explain principle adopted by the OECD Principles of Corporate Governance, in which listed companies adopts the principles, or if it does not do explains why non-compliance (CCGA, 2013; CMC, 2015; OECD, 2004; OECD, 2015). The Table 2 presents a summary comparison of the code of Corporate Governance of the Capital Market Commission (soft law) with the OECD (requirements and recommendations) so we can gauge the convergent points.

Table 2: Corporate Governance OECD versus Annotated Guide of Good Practice of Corporate Governance of CMC

| Principles of Corporate Governance of the OECD (soft law) | Recommendations of the CMC (soft law) |
|-----------------------------------------------------------|--------------------------------------|
| **1 – Base that ensures an effective Corporate governance structure** - the promotion of fair and transparent markets and efficient resource allocation should be consistent with the rule of law, an effective supervision and enforcement support. | The Annotated Guide of good practice of the CMC recommends procedures that ensure solid structures of Corporate Governance based on the CCC and SC of Angola, whereas the OECD principles (recommendations Nos. 30 to 43). |
2 – Rights and the equal treatment of shareholders and key functions of heritage – the structure of Corporate Governance can protect and facilitate exercise of the right of shareholders and ensure the equal treatment of shareholders, including minority and foreign partners.

Companies must treat your shareholders an equal and equidistant manner with respect to their interests. In this way, the information should be treated in a manner reserved ensuring no privileged access of same by partners with any qualified participation in society (recommendations Nos. 13, 14).

3 – Institutional investors, the stock market and other intermediaries – States that there must be solid economic incentives in the entire chain of investment, with focus on institutional investors.

No information related to institutional investors, but investors as a whole and in the dissemination of information Optics (recommendation No. 14).

4 – The role of stakeholders in Corporate Governance – Recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs and financially solid companies.

In preparing the annual report on Corporate Governance should be disclosed information about the relationship between the company and its stakeholders (recommendation 3 (b)).

Source: Own Elaboration (Based on OECD and CMC)

Table 2: Corporate Governance OECD versus Annotated Guide of Good Practice of Corporate Governance of CMC (Continuation)

5 – Disclosure and transparency – Ensure the timely and accurate dissemination of information on all relevant matters relating to the company, including financial and operational performance, the goals of the entity, information about majority shareholdings in the capital of society, information on related parties, risk factors, compensation, members of the governance of the society.

In conjunction with the Executive Management, the Board of Directors is responsible for the proper execution of the model of Government in force in society, and to ensure that, in respect of their specific characteristics, such as your size, complexity, nature of the risks inherent to the main business and other relevant factors, are fulfilled the recommendations of corporate governance of CMC (recommendation No. 1).
6 – The responsibilities of the Board of Directors – it is up to the administrative review of the corporate strategy, make the selection and setting the compensation of managers, oversee the large corporate acquisitions and divestments, and ensure the integrity of the entity’s financial reporting system.

The Board of directors should answer to the General Assembly for compliance with the best practices in government business and, if applicable, to the sectoral regulators, in respect for the comply or explain principle (recommendation 2).

Source: Own Elaboration (Based on OECD and CMC)

Analyzing the information in table 2, the Annotated Guide of good practice of Corporate Governance of CMC does not specify the institutional base which ensures a good Corporate Governance structure, but best practices internationally for the best capital markets (CMC, 2015). Thus, in the case of Angola, that institutional quality assurance Corporate Governance structure, is provided for in Security Code (hard law), which addressed the tasks of the supervisory body of the capital market and related to the supervision and direct supervision of open societies.

The biggest difference that denotes when comparing the principles of Corporate Governance of the OECD with the Annotated Guide of Good Practice of Corporate Governance of CMC, reflects the level of reference to institutional investors: while the OECD States that there should be incentives solid economic investment chain, with focus on institutional investors, CMC only refers to investors in a universal sense, and in the perspective of disclosure of information.

The Annotated Guide of Good Practice of Corporate Governance of CMC should serve as a basis for the preparation of the report of the Government open societies, and this document includes the assessment to the host (or not) of the recommendations set out in the guide of the CMC. Article 17, paragraph 3, of Regulation No 06/16, 07 June, predicts that open societies should explain, effectively, with due justification and rationale, indicating examples of practices that are widely suitable for both government entities, or supervision or other appropriate reason with a reputation of not welcoming the recommendations referred to in the Annotated Guide of Good Practices of Corporate Governance, thereby demonstrating the adequacy of the alternative solution adopted the principles of good Corporate Governance practices.
Requirements at the level of the accounting system and Financial Reporting
Open companies listed on Stock Exchange of Debt and Values of Angola

The General Accounting Plan of Angola was inspired based on international accounting standards of the International Accounting Standard Board (IASB), however, currently shows up in the face of the evolution suffered by misfit international accounting standards, becoming imperative that your review with a view to bringing international practices of the IASB (Landu 2014). Caliatu and Soares (2015) that, considering the increasing development of the country and the increased private investment and foreign, Angola is too late to adjust their accounting standards to international standards, and that should be created an independent body of the Ministry of finance, to work on this adjustment, involving accounting professionals, associations and bodies that directly or indirectly relate to the story.

Barroso (2014) states that the international accounting harmonization becomes a necessity for the development of capital markets, and that the absence of such harmonization has consequences such as increased capital costs for businesses, the biggest firms in difficulty be credible to investors and lenders, and the fact that listed companies in international capital markets suffer costs due to recast their accounts. Barroso (2014) adds that the harmonization of accounting systems in relation to the international standard presents obstacles related to the culture and history of each country, with the powers and size of the bodies, but that presents benefits related to the expansion of international transactions, with increased transparency, comparability and understandability of the financial statements submitted by the companies, and with the facilitation of decision-making by international investors and other stakeholders.

Conclusion

In relation to Angola, in general, concluded that the country is to establish a legal framework that shows in convergence with the main guidelines of the international organizations with regard to the requirements of Government and corporate surveillance and of the process of financial reporting, appropriate for entities operating in the capital markets. However, there is the urgent need of the Capital Market Commission guide or even recommending the mandatory adoption of international accounting standards of the IASB to entities that operate or want to operate on the Stock Exchange and Debt Values of Angola. In terms of Corporate Governance, a thorough convergence of principles and recommendations of the Committee on capital markets about the principles of Corporate Governance of the OECD.
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**Legislation**

Presidential Decree No. 22/12, January 30 – Legal Regime amending Decree No. 09/05, of 18 March, creates the Capital Markets Commission and approves the Organic Statute.

Commercial Companies Code (CCC) (30th Ed.). Coimbra: ALMEDINA EDITIONS, n. a. Act No. 1/04 of 13 February - approves the Legal Regime of Commercial Societies.

Law No. 12/05 of 23 September – approve the legal status of securities.

Law No. 22/15 of 31 August-legal framework of securities. Law No. 6/12 of 18 January- Approves the legal framework of Private Associations.

Regulation nº 6/16, of 7 June, Capital Markets Commission (CMC) - issuers of securities.