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COMPARATIVE ANALYSIS OF LEGAL FRAMEWORK FOR INTERIM FINANCIAL REPORTING IN SOUTHEAST EUROPE

Komparativna analiza pravnog okvira kratkoročnog finansijskog izveštavanja u jugoistočnoj Evropi

Abstract

Interim financial reporting is the process of preparation, compilation and disclosure of financial statements for periods shorter than one year. The most commonly discussed are semi-annual and quarterly reporting. In many countries, interim financial reporting is compulsory for companies whose securities are traded on a regulated market and is regulated by both national capital market legislation and international regulations - this refers primarily to IAS 34 and the EU Transparency Directive. This paper analyzes the legal framework for interim financial reporting in ten Southeast European countries. Despite the ongoing process of harmonizing accounting regulations and the fact that all observed countries have adopted IAS/IFRS, the analysis has shown that differences in interim reporting persist and are significant. They are particularly prominent in non-EU countries and in segments where international regulation has left flexibility to national regulations. The results of this research may be of value to investors, regulators and future researchers looking at the quality of interim financial reporting.

Keywords: *interim financial reporting, legal framework, Southeast Europe, IAS, US GAAP, capital market, transparency.*

Sažetak

Kratkoročno finansijsko izveštavanje predstavlja proces pripremanja, sastavljanja i obelodanjivanja finansijskih izveštaja za periode kraće od godinu dana. Najčešće se govori o polugodišnjem i kvartalnom izveštavanju. U mnogim državama kratkoročno finansijsko izveštavanje obavezno je za preduzeća čijim se hartijama od vrednosti trguje na organizovanom tržištu i regulisano je kako nacionalnim propisima iz oblasti tržišta kapitala, tako i međunarodnom regulativom, pre svega MRS 34 i EU Direktivom o transparentnosti. U ovom radu se analizira pravni okvir kratkoročnog finansijskog izveštavanja u deset država jugoistočne Evrope. Uprkos kontinuiranom procesu harmonizacije računovodstvenih propisa i činjenici da su sve posmatrane države prihvatile MRS/MSFI, analiza je pokazala da su razlike u pogledu kratkoročnog izveštavanja i dalje prisutne i značajne. One naročito dolaze do izražaja kod država koje nisu članice Evropske unije i u segmentima u kojim je međunarodna regulativa ostavila fleksibilnost nacionalnim propisima. Rezultati ovog istraživanja mogu da budu od značaja za investitore, regulatore i buduće istraživače koji se budu bavili kvalitetom kratkoročnog finansijskog izveštavanja.

Ključne reči: *kratkoročno finansijsko izveštavanje, pravni okvir, jugoistočna Evropa, MRS, US GAAP, tržište kapitala, transparentnost.*

1 The views expressed in this paper are those of the author and do not necessarily represent the views of the institution in which the author is employed.

Introduction

Financial reporting should not be observed merely as a legal obligation imposed by regulatory authorities. It is an important segment in creating trust between the reporting entity on the one hand and all other stakeholders on the other. This is especially pronounced on the capital market, as financial statements can serve to reduce information asymmetry and thus create a favorable environment for investment activities.

The rapid development of corporate business and the development of the capital market triggered by the industrial revolution have led to the development of new methods and forms of financial reporting. The separation of management from ownership function in the company and often expressed dispersion of ownership have strengthened the importance of financial reporting and increased the need to take accountability for company performance. This was accompanied by the business complexity and the changing business environment, so the period of one year became too long for stakeholders to be without information about company's operations.

Indeed, the importance of timeliness and availability of financial position information has led many countries to define, through their national laws, mandatory semi-annual reporting, and even quarterly in some cases. This should allow financial statement users to have significant and up-to-date information for making business decisions. However, despite the existence of international regulations in the field of interim financial reporting and the tendency to reach harmonization in the reporting across the countries, differences remain in national regulations, but also in their implementation. This makes reporting more difficult for entities which operate in more than one country, and for users to understand the disclosed information, as well.

With this in mind, we will analyze the legal framework for interim financial reporting in ten Southeast European countries - Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Montenegro, North Macedonia, Romania, Serbia and Slovenia, focusing on companies whose securities are traded on a regulated market.

The analysis has two objectives. First, to determine the extent to which national legislation differs among the observed countries and second, to designate whether the national legislation is compliant with the international regulations.

The paper contains three parts. The first part gives a brief overview of the interim reporting development and its benefits for internal and external users. The second part is a presentation of the relevant international regulations, while the third part presents the results of the analysis, i.e., a review of the interim reporting requirements in Southeast Europe. Finally, the last section presents concluding remarks followed by a list of references.

Development and benefits of interim financial reporting

The need for interim financial reporting (IFR), i.e., reporting for periods shorter than one year, first arose with internal users. Namely, improving business performance forecasting, value creation control, and identifying operational and financial risks required information that went beyond the scope of the annual financial statements.

In addition, internal users also needed information on individual profit centers, products, points of sale, and all that more often than once a year.

By accepting the changes that were inevitable, the redefinition of traditional governance systems was becoming increasingly imperative. In modern business context, performance management requires more flexibility and more qualitative indicators, in addition to the inevitable quantitative benchmarks. Moreover, creating and maintaining a competitive position in the market entails developing an early warning system and more effective control in the value creation and implementation plans. Managers were aware that rapid response to emerging business conditions is not only a prerequisite for creating a competitive advantage, but also a prerequisite for survival in the market, so they have demanded greater support from the information system. This support was reflected in more frequent reporting and in a form tailored to the needs of users and for different business segments. In that way, interim financial reporting was developing, though not legally established for the internal users' needs; the reporting form is flexible, and it usually contains relevant non-financial information, in addition to financial. However, while the value of timely information for owners and managers is indisputable, and therefore the importance of IFR, there are also some risks that should be borne in mind, such as the possibility of managerial myopia and neglected value creation in the long term [11].

Some of the companies that have operated successfully have started voluntarily to publish their interim reports to show external users that the activities they undertake are in line with the plan and positive results. Meanwhile, investors' aspirations to minimize the information gap, relative to internal users, have also led to mandatory external interim reporting in most countries. The United States of America (USA) has the longest history of external interim reporting, where the New York Stock Exchange advocated the introduction of interim reporting in the early 20th century. The Securities and Exchange Commission (SEC) formally introduced this obligation immediately after World War II[2]. According to Mensah and Werner research [23], Canada has followed the United States and introduced the requirement for quarterly reports in 1971. In Europe, the London Stock Exchange was among the first that required semi-annual reporting, but the UK, like Austria, formally adopted IFR through the Accounting Standards Board only in 1997. Numerous analyses of the interim reporting benefits can be found in the existing literature, but it seems that authors have most often investigated the impact on information asymmetry and capital costs.

If we observe information asymmetry from the aspect of the capital market, through the relationship between managers and investors, then it represents a factual situation, which all participants are aware of. However, in a modern, dynamic and competitive environment, financial reporting is a way of communicating with investors and other stakeholders and has influence on company's reputation. But, that financial reporting role also carries significant risk. In the communication process, everyone wants to make a good impression to the other side, and so does the company's management on investors. This tempts reporting entities to present the real situation better than it is. This is probably the reason due to which previous research about the impact of financial reporting frequency on information asymmetry has not led to the same conclusions. There are a number of authors who confirm the hypothesis that more frequent financial reporting reduces information asymmetry between managers and investors [3], [6], [22]. However, we should not overlook the authors who believe that more frequent financial reporting opens more space for more sophisticated investors to profit from the private information they have [14].

When it comes to the relationship between financial reporting and cost of capital, it is of great importance to reporting entities, regulators and investors themselves. Systemic risk-based capital appreciation models, such as the Capital Asset Pricing Model (CAPM) and portfolio theory, always emphasize the importance of identifying risk that can be diversified and one that cannot. With this in mind, for financial reporting researchers, it has been a challenge for years to prove whether accounting information can have an influence on costs of capital. If the cost of capital is seen as an expected return on shares [12], then it is logical to assume, in line with economic theory, that more frequent and better disclosure of information would have the effect of better assessing investment opportunities and reducing uncertainty. Numerous studies support the existence of a negative relationship between disclosure levels and cost of capital. Botosan [2] points out that more information provides higher market liquidity, thereby reducing capital costs, either by reducing transaction costs or by increasing demand for securities. In addition, he suggests that a higher degree of publication reduces the risk associated with investor ratings of return on investment. Other authors have had similar conclusions [4], [7], [14], [21]. Nevertheless, there are studies that have shown the opposite direction of nexus or the absence of interconnectedness between these variables [5], [15].

Although IFR plays a major role in protecting investors and reducing uncertainty, it should be borne in mind that these benefits are only achieved through high quality reporting, especially since the interim financial statements are not usually audited, contain considerable estimates and are subject to seasonal variations. In order

2 "United States Steel" is considered as the first company in the USA that released its quarterly financial information. That was in 1902.

to minimize these risks, it is important to follow best practices and professional regulations when designing them.

International regulation requirements in terms of interim financial reporting

The need for developing unified and generally accepted reporting standards was especially evident in the post-World War II period when there was a more intensive capital flow movement among the countries. Existence of differences in national regulations makes financial reporting more difficult and more expensive for companies that operate in different countries. However, those differences limit the analysis and represent an obstacle to foreign investors and other users of financial statements. The globalization process has accelerated the harmonization of accounting regulations. It is difficult to achieve a full harmonization, but not some general principles that would be acceptable to a larger number of countries. Because of its importance, IFR is, in addition to national regulations, regulated by international regulations, and below is a review of the most important requirements.

International accounting standard 34

As in the case of all other International accounting standards (IAS) and International financial reporting standards (IFRS), IAS 34 is applicable only if it is mandatory to apply IAS/IFRS under national or some other international regulations (e.g., European Directives for Member States). Furthermore, for this standard to be applicable and purposeful, it is also necessary that there is an obligation or reporting entities' will to compile and present financial statements for periods shorter than one year. Both conditions must be met.

The standard does not mandate which entities are required to prepare interim financial reports, how frequently, and in what time after the end of that period they need to disclose their reports. However, many countries have mandated interim financial reporting by their national legislation. In some countries, it is mandatory for all companies; in some it depends on the industry or the size of the company, while in almost all countries this obligation is imposed on companies whose securities are traded on a regulated market. Bearing in mind the representation and importance of IFR, it was justified to regulate this segment of financial reporting through IAS.

The objective of IAS 34 is to prescribe the minimum content of interim financial reports and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period [16]. Timely and reliable interim financial reporting improves the ability of investors, creditors and other users to understand the ability of the entity to generate profit and cash flow, financial circumstances, and performances of the entities.

By this standard, the International Accounting Standards Committee encourages publicly traded companies to provide interim financial statements and [16]:

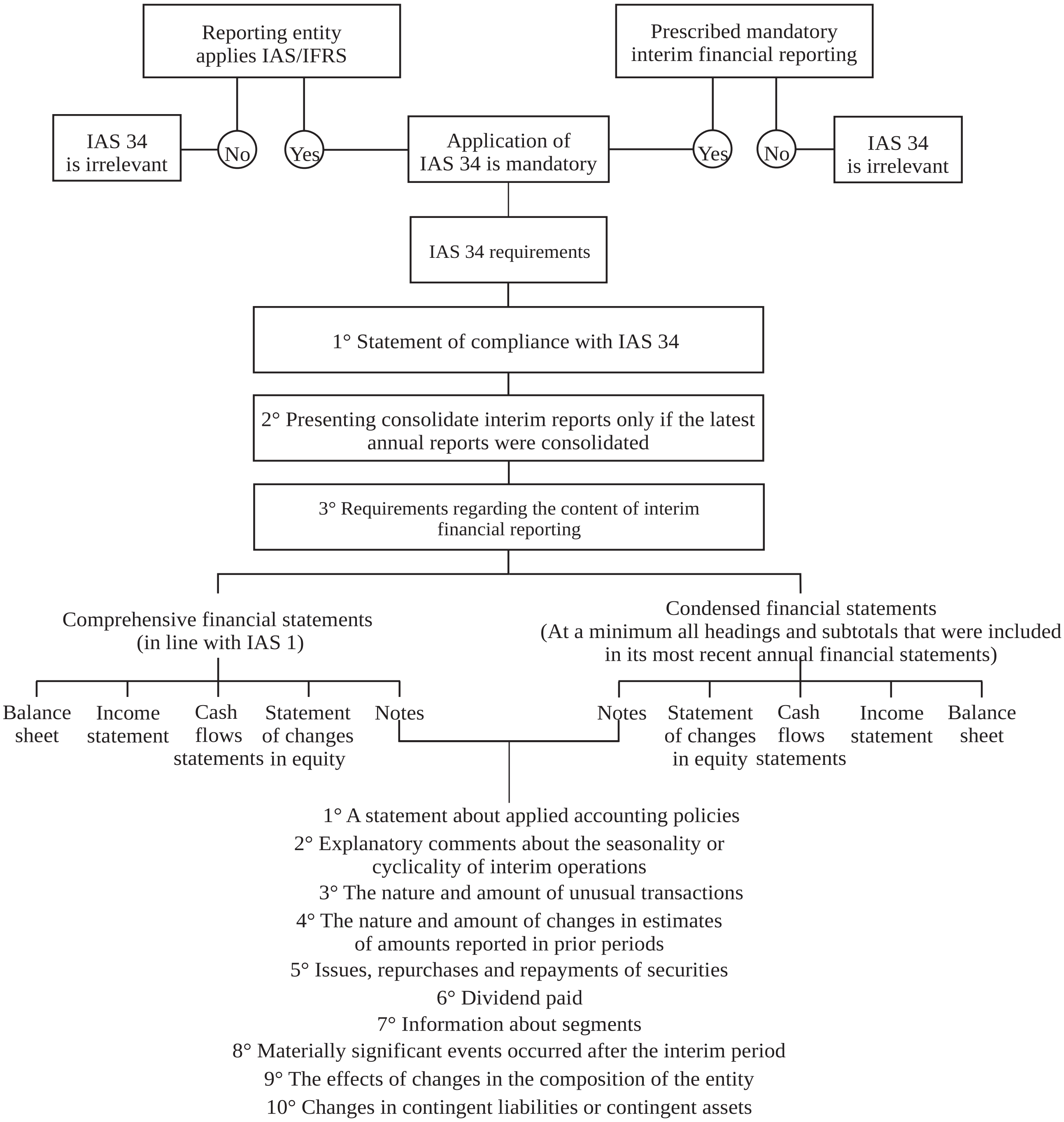
(a) to do that at least as of the end of the first half of their financial year, and
(b) to make their interim financial statements available not later than 60 days after the end of the interim period.

Given that the interim financial statements update the data from the last annual reports, their focus should be on the events that occurred in the observed interim period, and may contain less information than the annual reports, respecting the principle of materiality. Nevertheless, the standard sets out the requirements that interim financial statements should meet to make the declaration of compliance with the standards justified. These requirements are presented in Figure 1.

The standard leaves it as an option for national legislation and the entities themselves to choose whether to prepare and publish a complete or condensed financial statements. Thereby, regardless of which set is in place, it should include all financial statements, and the complete or condensed set refers to the level of data breakdown in each of the individual statements. Depending on the observed statement, the comparable period of the previous year may be the same interim period from the previous year or the end of the previous year.

This standard has been applied since 1999 and has so far undergone three amendments. The first was in 2010 in terms of significant transactions and events. The second

Figure 1: IAS 34 – Application and requirements



Source: Author's illustration based on IAS 34.

Table 1: The overview of comparable interim periods under IAS 34

Statement	Current year	Comparative period
Statement of financial position	As of the end of the current interim period	As of the end of the immediately preceding financial year
Statement of profit and loss and other comprehensive income	For the current interim period and cumulatively for the current financial year to date	For the comparable interim periods (current and year-to-date) of immediately preceding financial year
Statement of changes in equity	Cumulatively for the current financial year to date	Comparable year-to-date period of the immediately preceding financial year
Statement of cash flows	Cumulatively for the current financial year to date	Comparable year-to-date period of the immediately preceding financial year

Source: Author's illustration based on IAS 34.

one in 2012 was related to segment reporting, and the third was in 2014 regarding disclosure of information in IFR.

Transparency Directive

The latest form of accounting practices harmonization is in the European Union (EU) regulations, which in addition to the EU Member States, are also applicable to Iceland, Liechtenstein and Norway, which are members of the European Economic Area. Although the preparation of European directives began in 1965, the first directives were finalized almost twenty years later.

The EU Directive, which primarily regulates the field of financial reporting, is the Directive on the annual financial statements, consolidated financial statements and related reports for certain types of enterprises [9]. With the adoption of that Directive, Directives 78/660/EEC and 83/349/EEC, better known as the Fourth and Seventh Directives ceased to be valid. Also, from the aspect of financial reporting and the application of certain directives, the Regulation on the application of international accounting standards [32] is also important. The aim of the Regulation is the adoption and application of IASs in order to harmonize the financial data that companies publish, and ensure a high degree of transparency in the comparability of financial statements, plus efficient functioning of the capital market. This Regulation prescribes the mandatory implementation of the IAS/IFRS in the preparation of consolidated financial statements, while for the unconsolidated reports this obligation is not strictly prescribed. In addition to this Directive, the Transparency Directive is of great importance and is compulsory for companies whose securities are listed on the stock market.

The Directive on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market was adopted on 15 December 2004 and is often referred to as the Transparency Directive [8]. This Directive aims to improve the quality of information on issuers of securities having headquarters or operating activities on the territory of the European Union. Publication of accurate, comprehensive and timely information of issuers` financial position enables the higher level of trust among the users of the reports. In this way, users - investors and other stakeholders can evaluate and analyze operating results based on timely information. This increases both the protection and the efficiency of the market. This Directive introduces a more comprehensive half-yearly reporting for the securities' issuers, and Member States can regulate issues from the scope of this Directive by additional and more stringent requirements. In accordance with the Directive, the issuer of securities is obliged to publish semi-annual financial statements as soon as possible, and at the latest within three months from the expiry of the reporting period. As well as annual, the semi-annual statements should be available to the public for a minimum of ten years. The content of semi-annual financial statements is shown in Figure 2.

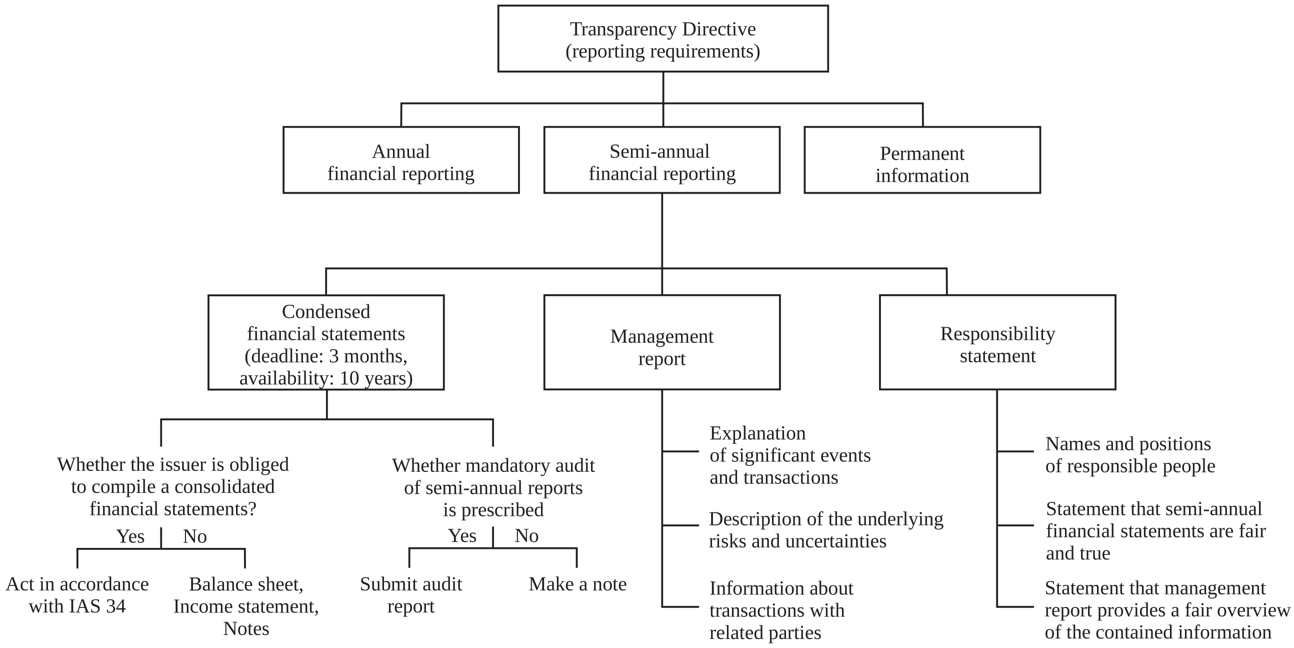
The Transparency Directive was amended in 2008 (Directive 2008/22), then in 2010 (Directives 2010/73 and 2010/78) and again in 2013 (Directive 2013/50). The amendments from 2013 include, inter alia, provisions related to interim financial reporting. The purpose of these amendments was to:

- Reduce the administrative burden on small and medium-sized enterprises - issuers, in order to improve their access to capital, and
- Improve the effectiveness of the transparency regime, in particular with regard to the disclosure of corporate information.

These amendments extend the deadline for the publication of semi-annual reports from two to three months, as well as the availability of reports to the public from five to ten years. These changes had to be incorporated into national legislation by 26 November 2015.

In addition to the Transparency Directive, the European Parliament and the Council also adopted in 2007 a Directive on the establishment of more detailed rules for the implementation of the provisions of the Transparency Directive and the harmonization of the requirements for transparency [10]. The Directive states that in cases when semi-annual financial statements are not compiled in accordance with IAS, they must not lead to misunderstanding of the assets, liabilities, financial position, and profit or loss of the issuer. The content of the reports should ensure adequate transparency to investors through a regular flow of information about the results

Figure 2: Transparency Directive requirements for interim financial reporting



Source: Author's illustration based on the Transparency Directive.

of the issuer, and this information should be presented in a way easily comparable with the information in the annual report. If the issuer publishes a condensed set of financial statements, and in the case when it is not obliged to prepare and publish them in accordance with IAS, then the condensed balance sheet and the condensed profit and loss statement (income statement) show at a minimum all headings and subtotals that were included in the latest annual financial statements. The reporting entity should include additional items if they are materially significant. The semi-annual reports must contain a comparative period data, which for the balance sheet is the end of the immediately preceding financial year, while for the income statement it is the same interim period of immediately preceding year. In addition, the condensed set should also include Notes to the financial statements to ensure the comparability of the period, and enough information that the user of the report can accurately understand all significant changes in the amount and all movements in the observed period.

US GAAP, ASC 270 – Interim financial reporting

As noted in the first part of the paper, the USA has the longest IFR tradition. Listed companies have been required to submit their quarterly sales reports since 1946. However, this practice was abolished in 1953, but the interruption lasted only two years, after which semi-annual reporting was introduced and the form on which companies were required to submit data was prescribed [34]. A few years later, the Stock Exchange reintroduced the requirement for quarterly reporting in the form of quarterly income statement. Shortly thereafter, the Accounting Standards Board issued an act introducing quarterly financial reporting[3].

Today, the basis for IFR in the USA is in the Standard 270, which is intended to provide guidance regarding the disclosure of interim financial statements for listed companies, although this guidance may apply to other entities that report more often than once a year.

The standard itself does not oblige companies to report more frequently, but it also suggests that the listed companies should disclose information on financial positions, results of operations and cash flows on a monthly or quarterly basis [36]. Like IAS 34, US ASC 270 permits the application of condensed balance forms for

3 The Accounting Standards Board is a body within the Financial Accounting Foundation, which was established in 1973 as an independent, private and not-for-profit organization that has a mandate to issue accounting standards. Up to that point, SEC had jurisdiction over the accounting standards.

IFR, cumulatively from the beginning of the year or for each period individually, including adequate comparative data from the previous year. Also, the same accounting policies as for the last annual report are required, and any differences should be disclosed. However, there are some significant differences with respect to IAS 34 that are worth noting (Table 2).

Companies may choose to present less information in the interim financial statements than in the annual reports, but it is necessary to disclose following information [36]:

Unless a balance sheet and a cash flow statement are provided in addition to the income statement, information on changes in the position of liquid assets, net working capital, long-term liabilities and share equity is required.

However, as in European countries, in the USA, mandatory interim financial reporting is imposed by regulations relating to the capital market. In the United States, the SEC, which is under the control of Congress, is responsible for regulating, monitoring, and applying accounting and reporting rules that listed companies must follow. The rules themselves are developed within the SEC and through oversight and cooperation with other bodies such as the Accounting Standards Board and the Emerging Issues Task Force. According to the SEC rules, quarterly reporting is mandatory for all listed companies and is done on a prescribed Form 10-Q that is not usually audited. Quarterly reports are submitted for the first three quarters, while the fourth quarter is actually an annual report. Deadlines for submitting quarterly reports are 40 or 45 days from the end of the quarter, depending on the company's public float. The form 10-Q has two parts. The first part relates to financial information and includes: a complete set of financial statements, management discussion, qualitative and quantitative market risk disclosures, and control procedures. The second part contains other information, such as legal procedures, risks, unregistered sale of the stock, etc. [37].

If the quarterly report is not submitted within the stipulated deadline, the company may submit, within 5 days, a form in which it also reports the reasons for the

Table 2: Differences between IAS 34 and US ASC 270

IAS 34	US ASC 270
IFR should be viewed in a discretionary manner. This means that each interim period should be presented as a separate reporting period.	An integrated approach is used, i.e., interim periods should be seen as an integrated part of annual reporting.
If an expense relates to more than one interim period, the cost should meet the definition of assets in order to be recognized as a deferred expense. In addition, accrued liabilities should be recognized as existing liabilities at the end of the interim period.	Certain expenses, which are related to several periods during the year, may be allocated to those periods to which they relate.
The standard suggests disclosure of a complete set of financial statements.	In addition to the income statement, the standard suggests disclosure of balance sheet and cash flow statement.
It does not specify how frequently to report, but it suggests at least on a semi-annual basis.	It does not specify how frequently to report, but the standards talks about quarterly, and even monthly reporting.

Source: Author's illustration based on IAS 34 and US ASC 270.

Table 3: Disclosure in line with ASC 270

Sales or gross revenues, provision for income taxes, and comprehensive income	Information about defined benefit pension plans and other post-retirement benefit plans
Basic and diluted earnings per share	Information about the use of fair value
Seasonal revenues, costs, or expenses	Derivative instruments information
Significant changes in estimates or provisions for income taxes	Information about investments in debt and equity securities
Unusual or infrequently occurred items	Information about other-than-temporary impairments
Contingent items	Information about the credit quality of financing receivables and credit losses
Changes in accounting principles	Changes in accumulated other comprehensive income
Significant changes in financial position	The carrying amount of foreclosed residential real estate property and the amount of loans in the process of foreclosure
Detailed information about segments	Business combination information

Source: Author's illustration based on US ASC 270.

delay (usually when it comes to business combinations, during the audit process, etc.). However, failure to submit quarterly reports in the extended period can result in deregistration from the organized market and other legal consequences.

Comparative analysis of mandatory interim reporting for listed companies in Southeast Europe

Previous studies in the field of IFR have largely been based on an analysis of developed countries with an active capital market. Based on the literature review, it seems that there are very few that have analyzed this area in countries where capital markets are less liquid, such as Southeast Europe (SEE). Of the ten analyzed countries, six came from the breakup of Yugoslavia: Bosnia and Herzegovina, Croatia, Montenegro, North Macedonia, Serbia and Slovenia, and these countries had identical financial reporting practices until the early 1990s. However, in recent decades, the different dynamics of the economic development of these countries have also influenced different reporting requirements. In addition to these countries, the analysis also includes Albania, Bulgaria, Greece and Romania[4]. All these countries are characterized by the dominance of the banking sector in relation to the capital markets, so the stock market turnover is significantly lower compared to the developed European countries. The average annual turnover in these countries in 2017 was around €2 billion, which is many times lower than the daily turnover on the London or German stock exchanges. In addition, most of the observed countries are still in the category of middle-income countries and their average GDP per capita is US$10,405[5]. Although they have an organized capital market, competent regulatory bodies and a regulatory framework, most SEE countries are characterized by political and macroeconomic instability, which certainly has a negative impact on the number of active investors. However, there are notable differences between these countries in terms of capital market and economic development. For example, ignoring Albania where stock trading has not yet developed, annual capital market turnover ranges from around €47.5 million in Montenegro to €15 billion in Greece. Furthermore, five out of ten countries are EU Member States, four have candidate status and one is a potential candidate. Given the importance of data transparency on the capital market development, we will analyze below the provisions of the regulatory framework applied to IFR in each of the mentioned countries.

In SEE countries, financial reporting is primarily regulated by the law on accounting and auditing or companies' law, depending on the country. Parallel to this, if we look at listed companies, financial reporting is additionally regulated by regulations in the field of capital market.

Non-EU countries voluntarily and in accordance with the recommendations of IAS 34 oblige companies whose securities are traded on a regulated market to report for a period shorter than one year, in addition to the annual financial reporting. On the other hand, EU Member States were obliged to comply with their national regulations in the previously stated way, in accordance with the relevant EU Directives. Accordingly, IFR is prescribed in all SEE countries, and the normative framework, although at first glance looks rather harmonized, still differs significantly, and there are also discrepancies between the relevant laws within the countries individually.

Considering the companies whose securities are traded on a regulated market, in all countries subjected to the analysis, the application of IAS is mandatory, even though some of the observed countries, such as Croatia, Slovenia, Albania, Bulgaria, Romania and Greece, have developed their own national standards. However, in non-EU countries, this obligation applies to both unconsolidated and consolidated financial statements, while in EU Member States, under the Regulation [32], the application of IAS/IFRS for listed companies is mandatory when they prepare consolidated financial statements. But, Member States determine the rule for unconsolidated financial statements by their own national legislation and certain ambiguities may arise. For example, in Bulgaria, the Accountancy Act [1] stipulates

4 Given that there is no universally accepted definition of Southeast Europe, the coverage of countries may differ in part from the above.

5 For example, in Germany is US$44,771, Switzerland US$80,643 and Luxembourg US$105,713.

that listed companies apply IAS/IFRS for annual reports and then, it is also stipulated that interim financial reports of those companies should be prepared by using the same standards as for annual statements. However, the Public Offering of Securities Act [30] leaves the possibility that individual financial statements do not comply with IAS/IFRS. In Romania, IAS/IFRS also apply to the individual financial statements of listed companies since 2012, but capital market regulation still distinguishes between consolidated and unconsolidated statements. In Greece, the Greek Accounting Standards Act [17] prescribes the mandatory application of IAS/IFRS for listed companies. Slovenia stipulates that IAS/IFRS are not mandatory for individual (unconsolidated) interim financial statements.

In some countries, regarding the content of interim financial reports, the regulation provisions are not fully precise and clear. While in the Republic of Srpska (RS) [43] the law is precise in this respect, requiring a mandatory complete set of financial statements in accordance with IAS, in the Federation of Bosnia and Herzegovina (FBIH), the Law on Securities [47] stipulates that the balance sheet and income statement have to be submitted, but in the Law on Accounting and Auditing [42] it is stipulated that all companies, including listed, have to submit a full set of financial statements (including Notes). Additionally, the regulatory body for securities in the FBIH also prescribed an obligatory form of interim financial statements, and the form envisages all five reports from the set. In Croatia, as well as in Serbia, it is stipulated that interim financial statements contain condensed financial statements in accordance with accounting standards [45], [46]. Slovenia has prescribed a condensed set of financial statements if the company is obliged to follow IAS, i.e., to consolidate the report, and if it does not follow international standards, then balance sheet, income statement and notes to the financial statements are mandatory [13]. It is similar in Bulgaria, Greece and Romania [30], [35] and [18]. In North Macedonia, it is stipulated that the interim financial statements are conducted in accordance with IAS, including all statements from the set, apart from Notes, which is contradictory, as the standard requires all five reports [20]. In Albania, the Law on Securities [19] stipulates the obligation of both semi-annual and quarterly reporting, and it is stated that the content of the report is prescribed by a special act. However, that act has not yet been adopted or is not available, and Albania still does not have a developed stock exchange where it is possible to trade with shares.

The interim management report is not defined by IAS, but by the Transparency Directive and is mandatory for all EU Member States as a part of semi-annual reporting. Consequently, this report is not mentioned in the national legislation of some non-EU SEE countries: Albania, BIH and North Macedonia. In other observed countries, the legal obligation for compiling and submitting this report is prescribed. In Croatia, it is stipulated that the report should contain all significant business events in the observed period, the expected future development of the company, research and development activities, information on the purchase of own shares, the existence of subsidiaries, information on financial instruments of the company, the goals and policies of the company in relation to risk management, risk exposure, and comments on individual positions in the financial statements [45]. In Bulgaria, Greece, Slovenia and Romania, it is stipulated that the report should contain the main mid-year events and their impact on the outcome, a description of the main risks and uncertainties until the end of the year, and a description of transactions with related parties. In Serbia, the obligation to disclose this report has been defined by law for several years, while Montenegro, which is a candidate for EU membership as Serbia, has introduced this obligation by adopting the new Capital Market Law (end-2017), and in that way brought it closer to EU requirements. The compilation of this report for quarterly reports is on a voluntary basis, as the Directive does not require this degree of frequency.

The responsibility statement is the statement by those who are responsible for the information in the interim financial statements and interim management report that, according to their knowledge, reports are fair and true presentation of the development and results of the issuer's operations and position. The statement also includes a description of the risks and uncertainties. It is mandatory in the EU countries, which means in the five monitored SEE countries. Nevertheless, this obligation is also prescribed for listed companies in Montenegro, North Macedonia and Serbia, but not in other SEE countries that are not EU members (Albania and BIH).

Consolidation of interim financial statements for companies that make up the group is mandatory if the last annual financial statements were consolidated. For the preparation and submission of consolidated interim financial statements, national legislation in some SEE countries prescribes somewhat longer deadlines than for semi-annual and quarterly individual financial statements. For example, in Bulgaria. the deadline for unconsolidated reports is 30 days, but for consolidated it is 60 days.

In accordance with international and domestic regulations, the audit of interim financial statements is not mandatory in SEE countries. An exception is Greece, where the Transparency Directive states that Greek-based companies submit semi-annual reports to an external auditor [35]. In all other countries, it can be done on a voluntary basis and in this case, issuers are obliged to submit an auditor's report. Otherwise, if the reports are not audited, the issuers are required to indicate that these are non-audited financial statements. It is interesting that in the six countries of the former Yugoslavia, of all companies that make stock exchange indexes within each country (about 150 companies), there is only one company that had an auditor's report for the semi-annual reports in 2017.

The reporting frequency varies between the countries. Semi-annual reporting for listed companies is prescribed in all countries. Although quarterly reporting is required neither by IAS/IFRS nor by European Directives, it is prescribed by national legislation in eight out of ten observed countries (either for certain or for all segments of capital market). As for the observed countries, quarterly reporting is optional only in Greece, North Macedonia and Slovenia. In North Macedonia, quarterly reporting was required until 2013 when it was repealed by amendments to the law. Similarly, in Greece it was mandatory until 2016. The deadlines for submission of quarterly reports range from

Table 4: Regulation requirements regarding IFR in SEE

	Accepted IAS for listed companies	Semi-annual management report is mandatory	Audit of interim financial reports is mandatory	Disclosure of consolidated interim reports	Disclosure of responsibility statement
Albania	✓	✗	✗	✓	✗
BIH - RS	✓	✗	✗	✓	✗
BIH - FBIH	✓	✗	✗	✓	✗
Bulgaria	✓	✓	✗	✓	✓
Croatia	✓	✓	✗	✓	✓
Greece	✓	✓	✓	✓	✓
North Macedonia	✓	✗	✗	✓	✓
Montenegro	✓	✓	✗	✓	✓
Romania	✓	✓	✗	✓	✓
Serbia	✓	✓	✗	✓	✓
Slovenia	✓	✓	✗	✓	✓

Source: Author's analysis based on the legal framework [1, 13, 17-20, 25–31, 33, 35, 38-47].

Table 5: Frequency and reporting deadlines for IFR in SEE

	Albania	BIH - RS	BIH - FBIH	Bulgaria	Croatia	Greece	N. Macedonia	Montenegro	Romania	Serbia	Slovenia
Reporting frequency	Quarterly	Quarterly*	Quarterly*	Quarterly**	Quarterly	Quarterly	Semi-annual	Quarterly	Quarterly**	Quarterly*	Semi-annual
Submission deadline (days)	Q - 20	Q - 30 SA - 60	Q - 30 SA - 60	Q - 30 SA - 30	Q - 30 SA - 90	SA - 90	SA - 45	Q - 30 SA - 60	Q - 45 SA - 90	Q - 45 SA - 60	SA - 90
Availability of reports (years)				Q - 5 SA - 10	Q - 5 SA - 10	SA - 10		Q - 10 SA - 10	Q - 5 SA - 10	Q - 5 SA - 5	SA - 10

Source: Author's analysis based on the legal framework [1, 13, 17-20, 25–31, 33, 35, 38-47].

Q –quarterly, SA – semi-annual

* Obligatory for official stock exchange market segment in the RS, listing segment in FBIH, and segment of listed and regulated market in Serbia.

** In Bulgaria and Romania, quarterly reporting does not include the preparation of the usual financial statements. In Bulgaria, a statement of financial conditions is required, with some explanations, and in Romania it is a review of economic and financial indicators (such as liquidity, indebtedness, etc.).

20 days in Albania to 45 in Romania and Serbia, while for semi-annual reports, in most countries, the deadline is three months, as prescribed in the Transparency Directive. This deadline in the observed EU countries was previously 60 days, but was extended by all countries, except Bulgaria, when the Directive was amended. Below is a brief overview of the frequency and timing of the interim financial report publication in SEE.

It should be noted that in the Republic of Srpska, the law [43] does not explicitly specify the deadline for submission of semi-annual reports, but the existing text leads to the conclusion that it is 30 days. However, in the Rulebook [26], the deadline is 60 days, but many companies from the Banja Luka Stock Exchange nevertheless submit reports within 30 days.

Based on the survey results, we can notice that although all countries have adopted IAS, there are still significant distinctions in regulations, but also deviations from the application of these standards. Consistent application of IAS implies disclosure of a complete set of financial statements, and from an analysis of national law provisions regarding the content of interim financial statements, we may remark that this is not the case in all countries.

These divergences in regulation suggest that there is a possible significant difference in the quality of IFR among the countries, especially if reporting practices deviate from the normative framework. This makes room for and justifies further research of the IFR quality.

Inadequate solutions in national regulations require particular caution on the part of the users of the reports and the responsibility of the regulators, since the financial statements are publicly available. In addition to the different regulation of the capital market, the unequal development of countries, the culture and the tradition of reporting, differences also exist due to the different status in the EU, i.e., the mandatory implementation of European directives.

Similar was concluded by Pervan et al. [24], who analyzed the financial reporting regulatory framework in the former Yugoslav countries in 2010, focusing on annual reports. Based on their analysis, they conclude that there are significant differences in reporting requirements, and that in addition to Slovenia (at that time the only EU Member State from amongst the analyzed countries), Croatia and North Macedonia have more harmonized regulations with EU requirements compared to BIH, Serbia and Montenegro, where significant room for harmonization existed at the time. In the meantime, from that survey till now, we note that most countries have changed their legislation to achieve greater alignment with international regulations, especially Serbia and Montenegro. However, it should be borne in mind that the incorporation of IAS/IFRS requirements and the Directive contributes to harmonization, but this does not necessarily mean high quality, if these requirements are not applied consistently.

Conclusion

The development of international regulation leads to a higher degree of harmonization of national regulations. However, this process is time-consuming and differences in certain segments inevitably exist. Analyzing the legal framework for interim financial reporting in Southeast Europe, we can come to the following conclusions.

First, in all analyzed countries, regardless of national accounting standards, listed companies apply IAS/IFRS. There is no doubt that consistent application of IAS 34 to interim financial statements would result in higher harmonization with regard to the content, recognition and valuation of the financial statements. However, an analysis of the real effects in Southeast Europe requires a detailed analysis of the quality of individual company reports, which is not the subject of this paper, but does provide room for further research.

Second, the Transparency Directive has led to more consistency within national regulations regarding the content and deadlines for the submission and availability of interim financial statements. Based on the analysis, we can see that in almost all EU Member States, the deadline for submitting semi-annual reports is three months and availability is ten years. In addition, it is noticeable that Serbia and Montenegro, as candidate countries, are approximating their regulations to EU requirements.

Third, significant differences exist in the segments where international regulation leaves flexibility to national legislation. An example of this is quarterly reporting. While it is not prescribed in some countries, in others it applies to all listed companies with short reporting deadlines.

Fourth, the differences are more significant between non-EU countries. We can notice that the regulations between Albania, BIH, Macedonia and Serbia are more different than, for example, regulations between EU Member States. Furthermore, in some non-member countries, such as Bosnia and Herzegovina or North Macedonia, we notice some contradictions in regulations, e.g., with respect to the mandatory content of the interim financial statements.

Although complete harmonization of regulations is probably impossible to achieve, primarily due to differences in the size of the capital market, the degree of economic development, tradition and willingness to compromise, it should be borne in mind that the business of most securities trading companies on the regulated market beyond national borders.

The non-uniformity of reporting regulations makes reporting more difficult, but also analyzing of financial statements, especially if there are differences in the procedures for valuation and recognition of financial statement items, or in the application of different reporting standards.

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