Germany taking lead on financial disclosure

It is first in EU to pass tougher laws

By Carter Dougherty

FRANKFURT: Germany has become the first European Union country to pass more stringent, Brussels-inspired laws on financial disclosure, paving the way for wider adoption of regulations designed to curtail fraud in the financial industry, analysts and industry spokesmen said Monday.

Becoming the first EU country to wrap up its work on a series of European directives, the German Parliament's upper chamber, the Bundesrat, on Friday approved a law intended to force corporations to disclose more information that might jolt share prices and to divulge more details of senior executives' finances.

To this mix, the German government added its own rules that will for the first time bring a wide swath of investments, principally in real estate, under the protection of key German laws that have long governed stocks and bonds.

"Seldom has there been such a collection of laws that protect investors," said Jürgen Kurz, a spokesman for DSW, the main German shareholder-protection organization. "We see this as a truly positive development."

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German corporations reacted more cautiously to the new rules, saying that the bureaucratic details of the new European and the German laws may yet cause problems. "Generally it's a good step, but we need to keep an eye on the details here," said Uta Kunhold, a legislative specialist with the German Equities Institute, a Frankfurt-based group of major companies that issue securities.

The move vaults Germany ahead of other countries in putting into practice a raft of European directives that affect the buying and selling of financial products, according to industry officials. France and Britain have said they will tackle the same legislation this year, Kunhold said.

"Germany has become a forerunner here in investor protection," said Peter Mattil, a Munich-based securities lawyer.

Additional legislation winding its way through Brussels, stemming from a broad financial services action plan adopted in 1999, will eventually increase disclosure in quarterly reports and alter shareholder voting structures. Work is expected to stretch into next year, industry officials said.

Germany's finance minister, Hans Eichel, has opted to impose further rules aimed at curbing investment fraud of the sort that plagued eastern Germany during the decade after reunification.

Swindles in which managers pooled money to build ultimately unprofitable houses and office buildings in the East hit thousands of German investors small and large. Such "gray market" investments, which industry representatives believe total €30 billion, or $36 billion, annually, were largely unregulated, but now require approval by Bafin, the Bonn-based financial services regulator.

Additional laws applying only to Germany, which the government will take up next year, make it possible for shareholders to challenge the decisions of senior managers, and to bring group lawsuits against companies. Another proposed change will make executives personally liable for their decisions.

The new EU-wide rules will require companies to divulge, on an ad hoc basis and not simply as part of their quarterly reports, more market-moving information, such as whether a company had been approached about a merger.

The laws also attempt to impose greater transparency on executive compensation, a controversial subject in Germany, where major companies are seeking concessions from unions. For example, current law obliges corporations to reveal when managers buy or sell company stocks worth €20,000, or $24,600, a limit that will now fall to €5,000.

"The new threshold is so low that, in substance, there are no more limits here," Kunold said.

Kurz said some companies were already moving in the direction of full disclosure of executive pay. Allianz, the Munich-based insurance and banking concern, announced two weeks ago that, beginning next year, it would put senior managers' salaries in its annual reports.

Another new EU-wide requirement, which would require companies to compile a list of employees with access to inside information that would permit ill-gotten gains, will impose a novel burden on publicly traded companies, executives said.

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