

BUCHAREST STOCK EXCHANGE. THE EVOLUTION OF INSTITUTIONAL FRAMEWORK AND OF THE MAIN FINANCIAL INSTRUMENTS.

Valentin EPURE, PhD candidate

Romanian Academy, Institute for Economic Forecasting
Bucharest Bar Association
epure.valentin@yahoo.com

Abstract:

The Stock Exchange is primarily intended to facilitate the flow of money from those who own capital (investors) to those who need capital in order to develop their own business (entrepreneurs). Any company listed on the Stock Exchange enjoys more advantages than access to development capital, the additional benefits being the improvement of the Company's profile, constant and free advertising, higher visibility vis-à-vis the customers and the business partners. This article analyses the evolution of the institutional framework of the Bucharest Stock Exchange at the time of creation and so far until now, as well the evolution of the main financial instruments traded in markets operating within the Bucharest Stock Exchange. An analysis is made related on the institutional framework since the establishment of the institution, showing the main progress and events that influenced the functioning and development of the Bucharest Stock Exchange. The main financial instruments traded on the Bucharest Stock Exchange (shares, bonds, fund units) as well as the evolution of the eight indices of Bucharest Bureaus are analysed.

Keywords: Bucharest Stock Exchange (BVB), evolution, indices

JEL Classification: G15

Introduction

The Stock Exchange term designates the institution of the market economy, with the purpose of providing the organized framework needed for transactions and a system of principles and norms that guarantee the conclusion and performance of the conventions on a balanced, mutually trustworthy and transparency basis between the contracting parties.

The Stock Exchange is the place where securities are traded under certain rules and procedures specific to this field. Being called the barometer of an economy, it is meant to highlight the rules of a free play of the market forces, being the closest to the pure and perfect market economy model. The Stock Exchange has a determining role in price formation based on the demand-supply ratio, mirroring in this respect the economic reality.

Any company listed on the stock exchange enjoys more advantages than access to development capital, additional benefits being improved company profile, constant and free advertising, higher visibility vis-à-vis customers and business partners. The Stock Exchange represents the place where the securities are traded in compliance with certain rules and procedures specific to this field.

The Stock Exchange identifies the legal framework for its incorporation, under the Law no. 52/1994 related on securities and stock exchanges (currently abrogated). According to these provisions, the Stock Exchange was established as a public institution by a decision of the National Securities Commission (CNVM, *Romanian acronym*), currently the Financial Supervisory Authority, being invested with legal personality. The Stock Exchange under the regulatory acts could receive donations, bequest and subsidies. By the same law it was established that CNVM could decide to set up a Stock Exchange only when it receives a request in this respect by at least 5 securities companies, owners of stock exchange authorizations.

The supervision and control of the stock exchange regarding the administration and operation was attributed to the stock exchange Commissary.

For the Stock Exchange Management a stock exchange Committee has been appointed, consisting of 5-9 members, being elected by the Stock Exchange Association. The mandate of the members of the committee was set for a term of 5 years. The members of the Stock Exchange Committee, after being appointed and before taking office, had to be individually validated by CNVM. After their validation, the president and the two vice-presidents were elected, the president being the legal representative of the Stock Exchange as a public institution.

Administration of the Stock Exchange is provided by the General Manager, who is appointed by the Stock Exchange Committee. The mandate of the General Manager is 5 years, with the status of civil servant with duties involving the exercise of public authority. The General Manager is the legal representative of the Stock Exchange, as a legal person, in relations with public authorities and with Romanian or foreign natural persons.

By the provisions of Law no. 52/1994 are implemented and regulated stock exchange operations, as all negotiations made at the Stock Exchange in the exchange meetings, which are recorded in accordance with regulations of the stock exchange transaction. Any type of stock exchange transaction made and registered represents an act of merchant which creates valid obligations that cannot be opposed to the exception of the game.

The Bucharest Stock Exchange was established on 21st April 1995 by Decision no. 20 issued by CNVM. The Bucharest Stock Exchange was established as a public institution with a legal personality that achieves its objectives according to the principle of self-financing.

The decision to establish the Bucharest Stock Exchange was issued by CNVM as a result of the request from 24 securities companies, members of the Stock Exchange Association. The Bucharest Stock Exchange has been awarded the status of a public interest institution, operating in the form of an auction market respecting the principle of price uniqueness as a point of equilibrium between supply and demand, on the basis of orders placed on the same security listed on the stock exchange.

The first trading session in the modern period of operation of the Bucharest Stock Exchange took place on November 20, 1995, at which 25 securities companies were able to bid in 6 companies listed on the stock exchange. As far as the material resources necessary for the establishment of the Stock Exchange are concerned, it received funding for the first year of activity from the state budget, based on the proposal submitted by CNVM. The amounts allocated as financing had to be recovered through CNVM over 3 years and the amounts had to be paid to the state budget, after the second year of operation of the Stock Exchange.

By Order no. 4 of 9th February 1996 issued by the President of CNVM, the Regulation no. 7/1995 on the status of the General Commissary of the Stock Exchange is approved. According to this regulation, the General Commissary exercises direct and permanent supervision and control of the Stock Exchange. In order to carry out the duties laid down in the Regulation, the General Commissary shall have free access to all premises, to all documents, information and records of the Stock Exchanges, which must make available to the General Commissary all the documents and information which he requests.

The Bucharest Stock Exchange operated as an auction market in which the principle of price uniqueness is respected as a point of equilibrium between supply and demand at a certain point in time.

With the advent of the Law no. 297/2004 regarding the capital market and the need to align the internal legislation with the European directives in the field, the Bucharest Stock Exchange changes its legal status, being transformed into a joint stock company. Company shares are distributed to brokerage companies operating on the market at that time.

In the first part of the stock exchange evolution, there is a continuous increase of the three stock indices (BET, BET-C and BET-FI), reaching new historical peaks at that time.

In 2005, the Bucharest Stock Exchange became an associate member of the World Federation of Exchanges: During the same period, the first privatization of a state-owned company took place on the Bucharest Stock Exchange. Transelectrica, as a result of a public offer for sale, is listed on the Bucharest Stock Exchange.

2008 is the year when a new premiere takes place at the Bucharest Stock Exchange, considering that the state securities were being traded and the first closed investment fund (STK Emergent) is listed.

The year 2010 is representative for the Bucharest Stock Exchange, when the first international company (Daimler AG) was introduced to trading on the Alternative Trading System of the Bucharest Stock Exchange. In mid-2010, the Bucharest Stock Exchange is listed on its own regulated market.

Year 2011 is marked by the listing of Proprietatea Fund on the Bucharest Stock Exchange, an event that has had a great influence on the value of transactions as well as on the number of active investors on the market.

In 2013, on the positive trend of the evolution of the Bucharest Stock Exchange, the program of privatizations through the capital market continues. Nuclear Electrica and Romgaz are listed on the Stock Exchange. The public offer for the sale of 15% of Romgaz shares is the largest offer that has been carried out to date at the Bucharest Stock Exchange.

The year 2014 is marked by the continuation of the modernization process of the Bucharest Stock Exchange. Implementing a new program for market-makers, reducing stock market indices and introducing new measures for potential and existing issuers is taking place. Also in 2014, the largest initial public offer for sale in the history of the Bucharest Stock Exchange is registered, respectively the sale of shares of Electrica and the stock exchange listing of this company.

The year 2015 marks the launch on the market share of the Alternative Trading System of the Bucharest Stock Exchange of the AeRO market, whilst the year 2016 marks the launch of a new investment product for both growing and declining markets (warrant).

The Bucharest Stock Exchange is a competitive market both in Eastern Europe and Central Europe, offering many financing opportunities for companies, which in turn aim to raise large investments in the capital market, growth prospects being optimistic in this respect. Thus, the Bucharest Stock Exchange can represent a financing alternative for large companies, which can attract significant capital from the main market, as well as start-ups and SMEs, for the latter being created the AeRO market.

Nowadays, the Bucharest Stock Exchange operates two types of instruments that help entrepreneurs looking for financing for their own companies. These instruments are represented by shares and bonds.

The Bucharest Stock Exchange operates two markets as follows:

- (i) *the Main Market* - used for companies with a higher maturity; and
- (ii) *the AeRO market* - where admission requirements are less rigorous allowing small and medium-sized companies to be admitted to this market.

There are three different methods within the Bucharest Stock Exchange through which a company can list its shares on the Main Market as follows:

(i) *The Initial Public Offering* - (Initial Public Offering - IPO), which involves making a prospectus that must be approved by the Financial Supervisory Authority. The company initiating the offer must also comply with all legal and regulatory procedures in the field.

(ii) *Private Placement*. However, this method limits the number of investors to 149 and does not require any further pre-approval or authorization phases.

(iii) *Technical listing*, this being a method for which no offer is made prior to listing. Under this offer, the company decides to benefit from the advantages of a listed company (transparency, credibility, higher visibility among profile companies).

Currently, the Bucharest Stock Exchange provides and calculates in real time 8 own indices and an index developed together with the Vienna Stock Exchange (the ROTX index).

The indexes calculated and distributed by the Bucharest Stock Exchange include the following indices: BET (Bucharest Exchange Trading), BET-TR, BET-XT, BET-XT-TR, BET-BK, BET-FI, BET-NG, BET Plus. The BET index can be referred to as a free float capitalized index for the most liquid shares traded on the BVB regulated market. The BET index was launched on September 19, 1997, being the first index developed and launched by the Bucharest Stock Exchange, with a value of 1,000 points at the launch date.

All index categories provided by the Bucharest Stock Exchange are calculated in Lei, Euro and USD, all of them being distributed in real time. The methodology used and applied by BVB in the use of indices allows the use of these indices as an active support for derivatives and structured products.

Table 1. Evolution of BVB indices on December 30, 2016.

Indici BVB	3 luni	6 luni	9 luni	12 luni
BET	2.14%	9.45%	5.50%	1.15%
BET-BK	2.88%	12.48%	6.65%	0.19%
BET-FI	2.12%	11.53%	6.26%	-1.87%
BET-NG	2.86%	4.83%	3.70%	-2.97%
BET-TR	2.14%	11.46%	14.42%	9.70%
BET-XT	2.50%	9.73%	5.78%	0.47%
BET-XT-TR	2.71%	12.38%	14.11%	8.39%
BETPLUS	2.09%	9.83%	5.67%	1.74%
ROTX	3.08%	14.87%	7.37%	0.94%

Source: ASF, <https://asfromania.ro/informatii-publice/media/arhiva/5802-evolutia-pietei-de-capital-la-31-12-2016>

These indices show the evolution of the prices of the most traded companies as well as the evolution of certain sectors that are representative of a country's economy and are traded on the stock exchange. All indices distributed by BVB are weighted price indices having a free float capitalization, with maximum limits on the weight of the component companies. The exception to this feature is represented by the BET-TR and BET-XT-TR indices that are adjusted for dividends, the remainder of the indices indicating only the evolution of market prices.

The calculation of the BET index and its spread to the public is done in real time by the BVB for each trading day and the values of this index are denominated both in Euro and USD, and are then published at the end of each trading session. For companies, the main selection criterion is given by the liquidity index. After 2015, for the selection, in addition to the criterion of the liquidity index, the transparency criteria for issuers and the quality of their communication and reporting to and with investors are also applied. The BET index reflects the evolution of companies that are the most traded on the market, but not with the inclusion in this category of the financial investment companies (SIFs). This is a preponderant price index that has a free float capitalization. The maximum share of such an index symbol is 20%.

The main types of financial instruments traded on the Bucharest Stock Exchange are: shares, bonds, fund units, certificates and warrants.

Regarding the *evolution of the shares* on the BVB's main market, it can be noticed that during the period 2008-2017 there is an increase of trading sessions from 250 meetings in 2008 to 254 meetings in 2016, and a decrease of them to 157 so far. The capitalization of shares in this market is on a steadily increasing trend from 45.701.492.619 lei in 2008 to 164.539.547.350 lei currently.

With all these increasing developments, the number of intermediaries experienced a reverse trend compared to the evolution of the shares, out of the 76 intermediaries registered in 2008, their number decreased vertiginously, with 36 intermediaries being currently authorized to carry out intermediation activities (according to Table 2).

Table 2. The evolution of shares in the Main Market of the Bucharest Stock Exchange (BVB) between 2008 and July 2017

An	Sedințe de tranzacționare	Nr. tranz.	Volum	Valoare	Valoare medie zilnică	Capitalizare	Societăți emitente	Nr. intermediari
2017	157	533.043	4.905.272.891	7.489.050.088	47.700.956	164.539.547.350	86	36
2016	254	653.27	11.048.103.360	9.253.798.584	36.432.278	146.549.746.292	86	38
2015	251	685.248	6.696.750.556	8.803.398.908	35.073.302	146.002.473.957	84	38
2014	250	787.753	11.615.242.311	12.990.643.873	51.962.575	129.958.141.655	83	40
2013	251	636.405	13.087.904.925	11.243.500.680	44.794.823	133.829.707.066	83	43
2012	250	647.974	12.533.192.975	7.436.052.589	29.744.210	97.720.863.603	79	54
2011	255	900.114	16.623.747.907	9.936.957.505	38.968.461	70.782.200.350	79	61
2010	255	889.486	13.339.282.639	5.600.619.918	21.963.215	102.442.620.945	74	65
2009	250	1.314.526	14.431.359.301	5.092.691.411	20.370.766	80.074.496.090	69	71
2008	250	1.341.297	12.847.992.164	6.950.399.787	27.801.599	45.701.492.619	68	76

Source: BVB, <http://www.bvb.ro/TradingAndStatistics/Statistics/GeneralStatistics>

Regarding the evolution of the BVB's main market, it can be said that it has evolved in a way similar to the evolution of the shares, the trading sessions dropping from 250 in 2009 to 157 nowadays. In terms of number of transactions, their evolution has dropped quite drastically from 965 in 2009 to 393 in 2014, after which they show a massive increase reaching 2.017 in 2015 and 23.364 transactions in 2016. The volume of transactions as well registered in 2009-2010 an increase from 2.892.920 lei to 3.014.375 lei in 2010, followed by a period of massive decline between 2012 and 2015. Starting with 2016, the volume of transactions resumed their upward trend reaching 7.903.823 lei at the end of the year (Table 3).

Table 3 .Evolution of bonds in the Main Market of the Bucharest Stock Exchange (BVB) between 2009 and July 2017.

An	Sedințe de tranzacționare	Nr. tranz.	Volum	Valoare	Valoare medie zilnică	Societăți emitente	Societăți emitente noi
2017	157	550	535.911	703.605.217,87	4.481.561,90	73	6
2016	254	23.364	7.903.823	1.345.447.473,98	5.297.037,30	80	6
2015	251	2.017	434.214	2.843.487.707,92	11.328.636,29	81	11
2014	250	393	170.029	955.710.416,65	3.822.841,67	71	5
2013	251	567	203.548	1.395.726.025,44	5.560.661,46	70	7
2012	250	409	245.238	1.431.115.737,72	5.724.462,95	68	8
2011	255	248	1.857.248	545.978.257,20	2.141.091,20	60	6
2010	255	543	3.014.375	2.571.065.247,01	10.082.608,81	55	7
2009	250	965	2.892.920	1.284.618.844,77	5.138.475,38	60	16

Source: BVB, <http://www.bvb.ro/TradingAndStatistics/Statistics/GeneralStatistics>

The same trend is available for the fund units in the main market of the BVB, the total value of transactions decreasing from 22.66.838,35 lei in 2010 to 11,176,401.80 lei in 2014 and 4,072,957.91 lei in 2016 (Table 4).

Table 4 .Evolution of Fund Units in the Main Market of the Bucharest Stock Exchange (BVB) between 2009 and July 2017.

An	Sedințe de tranzacționare	Nr. tranz.	Volum	Valoare	Valoare medie zilnică
2017	157	4.276	471.575	9.073.005,95	57.789,85
2016	254	1.986	254.715	4.072.957,91	16.035,27
2015	251	2.169	457.314	7.721.840,97	30.764,31
2014	250	3.572	506.367	11.176.401,80	44.705,61
2013	251	5.031	349.998	7.526.503,38	29.986,07
2012	250	2.647	164.774	4.924.685,65	19.698,74
2011	255	5.755	88.644	8.697.164,86	34.106,53
2010	255	5.027	223.112	22.663.838,35	88.877,80
2009					

Source: BVB, <http://www.bvb.ro/TradingAndStatistics/Statistics/GeneralStatistics>

At the Bucharest Stock Exchange, the ATS has a positive evolution, with an increase in the traded value from 604,792 lei in 2010 to 89,922,877 lei in 2015, reaching the maximum in year 2016 with a value of the transactions of 209,259,077 lei.

The situation is identical in the capitalization of ATS where in 2015 there is a capitalization of 3,854,076,943 lei and 5,270,137,616 lei until nowadays (Table 5).

Table 5 .The evolution of ATS within the Bucharest Stock Exchange (BVB) between 2010 and July 2017

An	Sedințe de tranzacționare	Nr. tranz.	Volum	Valoare	Valoare medie zilnică	Capitalizare	Societăți emitente	Nr. intermediari
2017	157	35.425	119.655.643	110.111.293	701.346	5.270.137.616	296	30
2016	254	53.219	285.223.146	209.259.007	823.854	4.241.612.026	292	32
2015	251	31.657	165.338.187	89.922.877	358.258	3.854.076.943	306	33
2014	250	8.718	999.905	20.236.933	80.948	0	36	34
2013	251	7.656	1.951.214	20.833.367	83.001	0	29	36
2012	250	5.947	122.248	16.845.137	67.381	0	27	45
2011	255	3.285	89.211	11.139.103	43.683	0	10	48
2010	26	152	2.731	604.792	23.261	0	1	45

Source: BVB, <http://www.bvb.ro/TradingAndStatistics/Statistics/GeneralStatistics>

In conclusion, the Bucharest Stock Exchange offers the alternative for financing mature companies, companies that can attract capital from the Main Market , as well as a start-up and SME financing, for the latter being created the AeRO market.

The Stock Exchange can also be called the barometer of an economy, with the aim of highlighting the rules of a free play of the market forces, being the closest to the pure and perfect market economy model. The Stock Exchange has a determining role in price formation based on the demand-supply ratio, mirroring in this respect the economic reality.

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