

InvestingRomania

# MARKET OPERATOR

JANUARY – OCTOBER 2014

# REPORT



# OVERVIEW

Starting 2014, Bucharest Stock Exchange (BVB), together with the Financial Supervisory Authorities, National Bank of Romania, Government, Ministry of Finance and the community of market stakeholders have undertaken the project of a deep capital market reform

meant to eliminate the barriers which stand against its development. Either focusing on investors' access into the market, increase liquidity or improve market infrastructure, all these measures are for Romanian capital market to be upgraded from Frontier to Emerging Market.

The market operator report will present on a periodical basis the measures taken and the projects implemented by BVB and the BVB Group on the side of market infrastructure, market mechanisms and measures to increase liquidity.

## MARKET INFRASTRUCTURE AND MARKET MECHANISMS

### Market

Since January, **BVB extended the trading program** for the following financial instruments of the regulated spot market: shares, fund units and rights. The trading session at Bucharest Stock Exchange ends at 18:00. This allows increased access of foreign investors, due to the time overlap with their normal trading hours. Additional to this, starting May 5, the continuous trading was extended with 15 min and was introduced Trading at Last, a new 10 minutes trading phase, applied to shares and rights (local and international) traded in the regulated spot market. Therefore, members and investors can trade at BVB during 9.30 – 18.00 local hours.

Starting with April, **new trading blocks** are available for the shares traded on Regulated and Rasdaq market segments of BVB, under main market and negotiated deals market. The trading block applied to shares will be reviewed periodically, so that it will be correlated with the dynamic of their prices.

On October 6, the two major infrastructure projects of the Romanian capital market, namely the **segregation of the trading and post-trading systems, and the migration to T+2 settlement cycle**, were successfully implemented. The segregation of trading and post-trading systems facilitates the efficient trading activity of market participants, the use of global accounts in the same way as in the most developed European markets and the automation of post-trade operations. The operational risks of custodian agents are significantly reduced by replacing the transmission of settlement confirmations by facsimile with electronic settlement instructions, in ISO 15022 standard format, also through the SWIFT network. In this way, the premises for the full automation of the settlement confirmation process of clients' transactions through the entire custody chain are created, with direct effects in increasing efficiency and reducing costs. Reducing the settlement cycle from 3 days to 2 days also contributes to increased efficiency and reduced post-trade risks, as a result of reducing counterparty risk and increasing the rate of capital reinvestment.

### Technology

Following the segregation of trading and post-trading systems, **the processing capacity of Arena Trading System increased**. The number of quotations allocated to the market-makers and to the liquidity providers trading on BVB market will be doubled, to facilitate their trading activity and the listing of the new quoting-intensive instruments.

For BVB, as the software solution developer of electronic platforms, both for trading, as well as for the CSD settlement system, another important advantage of the separation will be materialized in the speed of development and implementation of new features and market mechanisms, being simpler and more effective the separated and parallelized development of new functions for trading and post-trading, rather than in an integrated environment.

### Market Transparency and Information

For increasing accessibility to its markets, BVB released since the beginning of the year two versions of **mobile apps**, one for smart phones and the





other one for tablets, compatible with both Android and iOS. The new app is available free of charge at Google Play and Apple Store. The app is available in Romanian and English and it is easy to navigate,

offers quick access to menu functions, charting and many other facilities.

Bucharest Stock Exchange app provides the investors with up to date information including: market activity, companies information and news, BVB press releases, indices, prices of all listed securities, statistics, full screen lists with detailed trading information, graphics, watch list, list of exchange members etc.

## Indices

In order to ensure that its indices are better representing the market and are more relevant, in line with the best practices in the industry, BVB decided upon a series of restructuring of the existing BET family indices and the creation of new ones. Thus, the revised indices have a higher degree of investibility, being recommended to be used by asset management industry and portfolio managers as underlying,

benchmark or for hedging. Thus, **BET Plus Index**, an extended benchmark for the regulated market companies selected by liquidity and free float, was launched in June 2014. Three months later, in September, was released the **BET Total Return Index**, an index with the same criteria and methodology for BET index, but adjusted also with dividends, to show a complete picture for the overall performance of its member companies.

To **increase their investibility**, a more stringent criteria are applied for free float calculation, to all free float based indices, while BET index, starting January 2015, will define its members by transparency and IR oriented services.

The criterion refers to the following requirements: reporting in English, IFRS reporting, disclosure through BVB website and/or other platform designated by BVB, phone conferences/analyst & investor meetings when quarterly results are released.

## ListingBucharest

In October, Bucharest Stock Exchange presented **AeRO** to entrepreneurs, a platform that will allow access to financing small companies and start-ups. SMEs and start-up sector is the most dynamic part of the Romanian economy, and many entrepreneurs have difficulties to access the financing.

Bucharest Stock Exchange will allow small companies to go public and list on the stock exchange. A company can become public if it has a predictable minimum value of 250.000 Euro, and a minimum 10% free-float.

AeRO introduces a new element in Romanian capital market – the institution of Authorized Advisor. To become an Authorized Advisor, a company must be approved by Bucharest Stock Exchange after an evaluation and selection process. The Authorized Advisor will assist the entrepreneur in the pre-listing period, and after that, for reporting purposes (financial reports, current reports, General Shareholders' Meeting, etc.). AeRO will be launched by Bucharest Stock Exchange by the end of 2014. Launching date depends on framework approval by the Financial Supervision Authority.

# MEASURES TO INCREASE LIQUIDITY

## Members

Starting with January 3, 2014, the **new BVB market making program** has come into force. The program is aimed to develop the market making activity on the stock exchange and to enhance the liquidity and the market quality. The BVB market

making program, part of the Three Pillars plan, was applied for an initial period of six months. After this period, the program was assessed and extended for another 12 months. Currently, 4 members are in the program: Wood & Company, Banca Comerciala Romana, Raiffeisen Centrobank AG and IFB Finwest.

They ensure now the market making service for 10 companies listed on the regulated market, compared to 2 companies in 2013. Starting October 1, it was extended the list of shares, to all the ones included in BET Plus index, for which a market maker can act on.

The market making program has allowed participants to be registered on more shares than previously and for some of them to register for the first time as market maker, several shares benefiting in this way for the first time of a market maker. As part of the program, the trading fees for market makers were reduced to 0.01% and are equal on the buy side and the sell side, depending on the fulfillment of the market making quoting obligations.

Since May 2014, BVB made available for market makers a new method for entering orders (without a specific attribute), which has contributed to improvement of the

fulfillment of the market maker's quoting obligations. Thus, the program has registered some improvements reflected in higher traded values. Only in May and June the turnover counts for almost 50% in the total values for the first 6 months of the program (January-June).

For H1.2014, the weight of a market makers' activity in the main market trading value for some shares varied between 3% and 33.99%. Also, for H1.2014, the total traded value with the shares having market makers in the total traded value of the shares' main market is 4.66%. For developing a supporting framework for existing Market Makers, starting October 1, 2014, a new program of incentives is in force. This program is designed for a more sustained activity of the existing market makers, for the shares they are registered on. For these, BVB will apply an additional incentives package, called Revenue Sharing Scheme.

If a market maker holds this quality for at least 6 months and fulfilled its quoting obligations, than it is eligible for the progressive incentives scheme. The level of the incentives is directly linked with the weight of the market maker's activity in the total traded value per share in its main market.

## Participants and investors

**To encourage the trading activity of the participants and investors** on the stock exchange and to contribute to the development of the

local capital market, following the decision of the Financial Supervisory Authority to reduce the trading fees charged on the buy side for a trade, BVB came with the initiative to reduce the fees on its turn, effective as of October 1. Thus, for the equity, debt, ETFs and structured products markets, the cumulated BVB and FSA trading fee is 0.1% on both buy and sell side.

## Issuers

On the issuer's side, BVB does not charge fees for the transactions conducted on the primary market by the Ministry of Public Finance

for the **government securities issuances designated exclusively to retail investors**. In addition to this, **for incentivizing the issuers of structured products** to bring more listings and to stimulate the development of the market and increase of liquidity, BVB decreased the level for admission and maintenance to trading fees. This decrease is valid from February till the end of 2014.

In May, Financial Supervisory Authority approved the amendments to the BVB Rulebook referring to the **admission to trading of the financial instruments on the spot regulated market**. These aim at increasing the efficiency of some time consuming and costly procedures (as legalized translations of documents into

Romanian, documents with information already existing in the prospectus, other additional declarations), at offering the possibility of international issuers to apply in Romanian or in English, and at reducing the maximum time limit allocated by BVB to the admission procedure.