

# **INVESTOR GUIDE AT BUCHAREST STOCK EXCHANGE**

## **BSE PRODUCTS & PRACTICE**

### **PRODUCTS**

All the products traded in BSE are dematerialized.

- Equities are currently the main products traded at the Bucharest Stock Exchange (BSE).
- Besides, there are also Public Offering or Initial Public Offering executed through the BSE system.
- Municipal and corporate bonds are also traded at BSE.
- BSE has the capacity to trade T-bills but for the moment are not available.
- BSE is trading also shares for so-called 'unlisted' companies. They were unlisted by self-request or were unlisted by BSE or by Romanian National Securities Commission.

### **PRACTICE**

#### **Introduction**

There is always a risk when investing in stocks and shares (prices can go down as well as up), but there is also the possibility of greater reward – through dividend income as well as capital gains. Before investing in stocks and shares an investor should be clear about its financial position and

what it hopes to achieve with its investments. Investor regular financial commitments should be covered and provision made for unexpected expenses. Having done this, an investor is ready to consider investing the surplus in stock and shares.

#### **Shares**

Basically a 'share' is exactly what it says it is – a share of a business. When an investor buys a share, it becomes a part owner – a shareholder – of a business. An investor will be involved in certain decisions regarding business future and it will share the profits.

Shares are traded on BSE during every working day of the year, based on a calendar and an investor can buy or sell whenever it wishes.

Equities or ordinary shares are issued by companies and represent the money which shareholders (or owners of the business) originally put into building up the business (face value).

Through them, holders of ordinary shares are in a special relationship with the company. They are entitled to vote on company policy, appoint and dismiss directors and if the company makes a profit they are entitled to a share of it.

But shareholders' dividends (the slice of profit(s) that is paid out to the shareholders) are not fixed. Each year the directors recommend, upon the Romanian Company Law, how much money the company should keep in reserve for future expansion and how much should be distributed to shareowners, taking into account the overall size of that year's company profits.

## **Becoming a shareholder**

In Romania, in general, all adult Romanian citizens received shares in the state own companies through the mass privatization process. However, to become the first-time shareowner, there are two most common methods:

- buying new issues – directly from a company listed and traded at BSE or from a company that intends to list its shares at BSE. The company that makes the new issue must outline the details of the sales in an authorized public offer prospectus and must advertise it in at least one

daily newspaper with national coverage.

- buying existing shares – private investors are not limited to participating in the new issues – in fact the BSE's main function is to allow existing shares (of the BSE listed companies) to be bought and sold on the stock market at any time during BSE trading hours. As members of BSE, brokerage firms buy and sell on behalf of their clients, private individuals or large institutions, or in their own name.

## **BSE Conventions**

Companies listed at BSE are grouped into two tiers, based on the requirements of BSE regulations, with tier one including the companies with the highest performance. In the BSE electronic system, each listed company is represented by one (or more) code called 'symbol' (one for each separate issue of the same company).

The 10 most active stocks from the tier one are included into the "BET" index

and all the rest of the listed companies (excepting the investment funds) are included into the composite index "BET-C".

"BET-FI" is a sectarian index that includes only the investment funds listed at the BSE.

All BSE indices are calculated based on a market-value weighted method. Each symbol-weighting factor is proportional with the number of shares outstanding for that symbol.

## **BSE Securities portfolios**

Besides its electronic trading system, BSE includes in its integrated system also the registry system (book entry system) and the clearing-settlement system.

Based on these BSE capabilities, an investor can have its securities portfolio maintained by:

- a BSE brokerage member

- a custodian member of BSE (but traded only with a BSE brokerage member)
- or/and the registry company (BSE registry or an independent registry linked electronically with BSE electronic system).

## **Investor Trading at BSE**

Any investor -including foreigners- can trade at BSE, but only through a Romanian brokerage firm, member of BSE Association. Contacting a few brokerage members is then the first step an investor should start with. Based on the services they can offer and on the fees they ask, an investor must choose a broker according with the type of service it require.

Once an investor has chosen a broker and the type of service it requires, the next move will be to decide if it wishes to invest for income, capital gain or for an element of each in its portfolio.

Once these decisions have been made the investor can start to build the portfolio most suitable for its requirements.

Therefore, the brokerage member will open an individual client portfolio account (for shares) in the BSE registry system, in the name of its client, and will execute the client orders.

The same procedure must be followed by a shareowner that received the shares from the mass privatization process and wants just to sell them all at once, becoming a 'one time seller'.

## **Investor fees**

The amount of brokerage member fee for each trade can be negotiated with the brokerage firm, but it can not be greater than 8% from the value of the trade.

In general, BSE is charging 0.3% from the value of a trade for the seller and 0.22% for the buyer involved into a trade. The fee becomes 0.2% from the value of the trade for the seller and

respective 0.12% for the buyer for a trade with a value grater than 111,111.11 USD that was executed in the Deal market.

The Romanian National Securities Commission is charging 0.08% from the value of the trade for every buyer.

The income tax for Romanian individuals is 1% from the client capital gains.

## **Clearing-Settlement**

The clearing of money and shares is performed by BSE. The settlement of money is performed through settlement banks, the final settlement bank being the National Bank of Romania. The settlement of securities is performed by the BSE.

The settlement cycle is T+3; meaning that the settlement of money and securities is performed in the third day after the trade was executed in BSE.

Even if the buyer becomes the beneficial owner of the bought shares only in the settlement day, the buyer can sell immediately the stock it just bought (as they are made available in its portfolio account). However, in order to be included in the registry list of shareholders, which will receive dividends or other entitlements, a client should buy a stock at least three days before a company dividend/entitlement reference day.

## **Investor Orders**

A client can send its orders to the trading agent of the brokerage firm, one by one or can open a discretionary account with the brokerage member and let the agent administer the portfolio in his name.

A client can have only one account open with a brokerage member. A client is not allowed to trade to itself. A trade is always done only between two clients and not between groups of clients.

## **Sanctions**

BSE surveillance is acting to prevent, to identify and to report any improper trading activities. The price and volume manipulations are prohibited. The use of confidential information (inside trading) for trading activities before this is disseminated to all market participants is also considered a fraud by BSE and Romanian National

Securities Commission and will be sanctioned.

The brokerage members and their traders can be sanctioned for their misconduct not following the BSE regulations.

An investor should be aware that a trader would not execute orders at BSE that will not be conforming to the BSE regulations.

# TRADING AT BUCHAREST STOCK EXCHANGE

## Introduction

The Bucharest Stock Exchange (BSE) electronic system is using a securities management solution provided by EFA Software Services Canada. This real time integrated system is containing a number of components, which together, provide a complete trading solution:

- HORIZON™ - Trading system
- EQUATOR™ - Clearing-Settlement and Registry system

The key element of successful stock exchange operations is represented by the ability to integrate the above modules of a full trading cycle into a single electronic system. This technique, based on the most developed electronic products is used with high efficiency by the BSE even since it was established in 1995. HORIZON™ is the Bucharest Stock Exchange's automated trading system that gives to the brokerage firms' traders the ability to trade electronically directly from their remote computers throughout network links. EQUATOR™ is the Bucharest Stock Exchange's

automated clearing, settlement, depository and registry (CSDR) system. EQUATOR™ is tightly coupled in real time with HORIZON™ trading system. It is accessed remotely by the brokers and by the custodians. HORIZON™ and EQUATOR™ are very flexible, parameter-driven systems that can be configured to support most market environments and adapt to the changing business needs of each stock exchange/clearing house. Both systems allow different levels of access to users. Users who belong to a particular member, as opposed to users who work for the exchange, would only be given access to functions and data that pertain to them. Different types of members may have access to different parts of the systems depending on which functions they need to perform. The exchange staff has also different access levels according to their functions in the organization (For example, the trading staff does not have access to the registry functions, etc).

## Trading notes

The Bucharest Stock Exchange is an all-encompassing body, housing the individual markets administered and controlled separately. Each listed security is traded simultaneously in three markets having the following characteristics:

- Regular market - Primary market
  - an order driven automated matching market
  - the only one that generate closing prices and prices used to calculate indices
  - is using round lots of 100 shares each
  - there is no technical restriction for maximal trade value limit

(except the limit of client portfolio restriction or the trade limit allowed for a brokerage firm)

- Odd Lot market
  - an order driven automated matching market
  - accepts only orders having quantity under 100 shares
- Deal market
  - a one-to-one negotiation market
  - is not using round lots
  - each deal should have a minimum value of 500,000,000 ROL (~19,300 USD)

In each market there are two order books: the Regular Book and the

Special Terms Book. Orders with no fill restrictions are queued to trade in the Regular Book. If a fill restriction (Minimum Block, Minimum Fill) is applied to an order, the order queues in the Special Terms Book. The order price is restricted to be entered in defined tick sizes within a price range. Also, there are restrictions for one trading session of the order price variation in the range of +/- 15% from the last close price of the corresponding security. All orders entered into a market during a trading day are given a unique time-stamp when they are queued to the trading system. The trading system queues all orders according to the allocation rules of the Bucharest Stock Exchange. The criteria for determining trading priority are in this order: price, client type (individual, institution, house, staff) and time. The trading system terminal used by traders is designed to simplify the process of order entry and other exchange activities, such as:

- processing orders (enter, cancel, match or change buy and sell orders);
- managing trades (view trade inquiries showing all activity for a broker, symbol or market);
- monitoring activity (watch securities that the trader selects and keep track of the market with waterfall tickers);
- monitoring the market by order, or by price;
- determining the broker outstanding and traded positions (profit and loss);
- printing reports

- downloading information into a spreadsheet program or personal database for analysis or to interface or reconcile with back-office management systems.

The exchange market control can halt or the trading system may freeze trading on securities when exceptional trades occur. Alerts are warnings when unusual trading occurs. Halts are temporary stoppages, applied manually by the exchange, usually in anticipation of an announcement by a company. Freezes are designed to protect traders from making serious errors, and to alert the exchange control when unusual trades are executed.

The buy and sell orders can have the following types:

- Limit order
- Unpriced order - price filed empty
- Market order - market price, with price protection
- Match order
- Hit order
- Take order

All order must have an account corresponding to the client recorded in the registry system. This account is validated in real time during order entry process by checking the registry system. Along with the account validation is performed also a real time quantity checking for sell orders. There are several common time restrictions for each order: day, open, Fill-Or-Kill, Good-Till-Date, etc. An order can have a hidden quantity just to prevent bigger quantity orders to artificially influence the market.

## **Clearing-Settlement notes**

The settlement date is the date on which the buyer must pay for the securities and the seller must deliver the securities. The Bucharest Stock Exchange is using a T+3 period for settlement. (For example, if the trading date is 11.12.2000, the corresponding settlement date is 14.12.2000) The Clearing-Settlement system is integrated in real time (i.e. tightly coupled) with the Trading system and with the Registry system.

The Bucharest Stock Exchange Clearing-Settlement system uses the multilateral netting method for calculating the clearing reports for the each brokerage or custodian member. The custodian members are allowed only to clear the trades of their clients who trade through a brokerage house, member of the stock exchange. They do not have the right to trade.

Each brokerage firm selects as settlement bank one of the commercial banks authorized by the National Bank of Romania and accepted by the Bucharest Stock Exchange.

The National Bank of Romania is the final settlement bank and is performing the settlement of the money, while the Bucharest Stock Exchange is performing the settlement of securities. The National Bank of Romania is monitoring the settlement banks and is applying the risk management procedures for them.

The National Securities Commission and the Bucharest Stock Exchange are monitoring the brokerage companies. The Bucharest Stock Exchange is applying the risk management procedures for the brokerage companies and the custodian banks.

## **Registry notes**

The Bucharest Stock Exchange operates a fully dematerialized environment. In order to be listed and traded, all the securities have to be dematerialized. In the Bucharest Stock Exchange each client (shareholder) has an individual account stored and maintained in the Registry system. Nominee accounts are only allowed for clients who settle their trades through a custodian member. The Registry maintains the individual accounts for the clients that have contracts with brokerage members or custodian members and also stores the brokerage members own accounts (house accounts). Each brokerage or custodian member is allowed to manage the accounts of their clients. The accounts of the clients, which do not have contracts with the brokerage members nor with the custodian members are maintained in a special section of the Registry and are administered by the exchange Registry

staff. The Bucharest Stock Exchange has its own Registry and in addition it is also electronically connected with another two independent Registries. Each Registry account has a special structure to reflect in real time its activity (order entry, securities transfers, trading, settlements, clearing, etc). The brokerage and custodian members are not allowed to transfer securities between the accounts they manage. The custodian members are allowed to put pledges on the securities in their clients' portfolio accounts, according to their clients' instructions. The clients accounts can be grouped in 'group accounts' that are only used for trading purposes and not for stockholding. After the trading session ends, all the traded securities of the individual accounts placed in a group account are allocated to the corresponding individual accounts.

