



May 22 2019

**To: Mr. Christopher Woods**  
**Managing Director**  
**FTSE Russell**

**Ref: Recent developments of the Romanian capital markets and endorsement for becoming an Emerging Market**

Dear Mr. Woods,

On behalf of the American Chamber of Commerce in Romania, the local institutional investors professional associations - Coalitia for Romania's Development, Foreign Investors Council, Romanian Asset Managers Association, National Association of Insurance and Reinsurance Companies in Romania, Romanian Private Pension Funds Association, Romanian Association of Banks, CFA Society Romania -, Bucharest Stock Exchange and the Romanian Central Depository, we are writing to present you the recent developments of the Romanian capital market and to endorse its promotion to the Emerging Markets status. We truly believe in the potential that the Romanian capital market has to offer to foreign investors and to the local community of capital market stakeholders, following its reform started in 2014. Moreover, we are also confident that a potential classification to Emerging Markets status is a well-deserved recognition following all efforts for development made by the market actors in Romania. We are convinced that a market such as Romania deserves a place in the Emerging Markets family and that this position is by far more appropriate than the current big portion of the small Frontier Markets pie.

## Unfreezing IPO market, numerous deals of equities and bonds

Four IPOs, with a total value of EUR 272 mn, and nine bonds listings and issuances, with a total value of 1.3 EUR bn, took place on the Bucharest Stock Exchange (BVB) in 2017. The aforementioned volumes prove the capacity of the Romanian capital market to attract foreign investors for large transactions (such as Digi Communications NV, EUR 207 mn subscribed in May 2017) as well as the diversification of business sectors available on the market: telecommunication services (DIGI), insurance brokerage (Transilvania Broker de Asigurare), food service (Sphera Franchise Group).

2017 was also an excellent year in terms of bond issuances and listings. The total corporate bonds listings and issuances through BVB, in 2017, reached EUR 1.3 bn, including the largest listed bonds in the history of BVB in the amount of EUR 550 mn, issued by the real estate unicorn Globalworth.

At the beginning of 2018, a new IPO of the wine producer Purcari Wineries was concluded successfully, with a value of almost EUR 40 mn. Purcari is the first foreign company to run an IPO and list on BVB. In December 2018, the majority shareholder, Vimetco N.V., and the shareholder Conef S.A., launched an accelerated private placement offer of shares for the aluminum producer, ALRO, following which the free float of the company more than doubled. The bond segment, both on main and the AeRO markets, was also dynamic in 2018, with the value of bond issuances and listings of more than EUR 1.7 bn.

The Made in Romania project, run by the Bucharest Stock Exchange, is the main driver for the private listings on the exchange. The project received great support from the entrepreneurs who already listed their businesses on BVB.

Over the 2013 – 2014 period, the Government has IPO-ed several large companies from the energy and utilities sectors on the Bucharest Stock Exchange and discussions with the Government are held to resume the IPOs of minority stakes in large State-owned companies.

Constant care is also shown in improving the quality of the issuers' reporting and corporate governance compliance, both in terms of private companies or SOEs.

## Market mechanisms and infrastructure projects

At the end of 2017, the Bucharest Stock Exchange concluded the M&A project with the local SIBEX exchange, contributing in this way to the consolidation of the local capital market infrastructure.

Settlement liberalization of the transaction concluded outside the trading system (free OTC) has been available since September 3, 2018:

- Settlement in the CSD system of OTC transactions without restrictions, for all types of financial instruments.
- Expansion of the already existing 'turnaround' mechanism for all financial instruments.
- Possibility to choose "plain" OTC transactions or OTC as a turnaround transaction.

As of April 2018, Bucharest Stock Exchange has started working on implementing a local Central Clearing Counterparty solution (CCP), needed as per ESMA regulation for relaunching the derivatives trading on the Romanian capital market. BVB is expected to submit to ESMA and to the Romanian Financial Supervisory Authority the file for authorization of the CCP by the end of 2019 and have the CCP set-up by the end of 2020. For making this happen, BVB benefits of the experience of an EU CCP Provider. In addition to the product diversification via equity/index/energy underlying derivatives, the CCP project offers the opportunity for trading more investment strategies, increasing international attractiveness over the market, creating premises for reduced fees and for increasing liquidity from resulting synergies.

EU standards for corporate actions processing have been implemented on the Romanian capital market since early 2017. A new electronic platform for transmitting information regarding corporate events was made available for intermediaries and listed issuers. Through this application, the issuers transmit to the Central Depository system in a standardized electronic format the details

of the event and the Central Depository' participants receive it in the same format, then being able to instruct on behalf of their clients, if the case may be (for the corporate actions with options). The platform can be accessed by participants also via SWIFT network and by issuers via internet, using a digital certificate. Corporate actions automated processing based on European standards improves the relationship between issuers and their shareholders, thus increasing the efficiency of their communication and processing.

Significant improvements were brought by a new Issuers Law in terms of harmonization of the local provisions with the European requirements in force and regulations at the level of public offers, transparency regime, corporate actions and market abuse regime. The adoption of the new Issuers Law created the premises for increasing the degree of corporate governance implementation at issuers' level, with direct implications in terms of transparency and reporting of market information as well as optimizing the regime of public offers and securities listings. Moreover, the Law allows the use of SWIFT/electronic instructions for exercising the proxies in general shareholders meetings by the custodian banks for their clients.

The Romanian Financial Supervisory Authority updated the regulation related to lending & borrowing activities, by ensuring a more flexible framework, in line with the diversity of the situations that can occur in practice, with regard to: 1) the financial instruments subject to those operations; 2) the type of participants involved and the types of operations available to them and their clients. The changes are in line with various market needs and provide grounds for a larger use of lending&borrowing operations. It ensures an adequate and improved structure needed for the involvement of the international investors in carrying out these operations. The fiscal treatment of such operations was also clarified.

Furthermore, all pieces of national legislation with incidence on the capital markets are available in English as well, making it easy for investors to freely access requirements and details.

## Liquidity figures and prospects

The Bucharest Stock Exchange saw all its indices post positive returns at the end of the first quarter of 2019 amid the domestic political turmoil and the international uncertainties over international trade war and emerging markets. The BET index, which includes the most traded 16 companies on BVB, went up by 9 % at the end of the first three months of 2019, posting a closing value of 8,045 points at the end of the last trading session from March. A similar growth rate was reported by the BET-TR index, which also includes the dividends offered by the companies from the BET index. In terms of dividend yields, in 2018 Romania has managed to remain one of the most performing markets globally, with figures of 7% and dividends paid by more than half of the companies listed on the main market.

From our calculations, there are at least 3 Romanian listed companies that constantly reached the individual criteria required by FTSE Russell methodology, at the end of 2018, being Banca Transilvania, Romagaz and BRD-Groupe Societe Generale, and a constant share turnover velocity for the broad market starting 2016.

Romanian blue chips representatives have been constantly present across Europe and the US to several Romania/CEE Investor Days for meeting foreign investors and promoting the investments in the local capital market. All these events are very well attended by the foreign investment community.

Compared to other small, but Emerging Markets in the CEE&SEE region, where more than 95% of the total trading value registered by the market is made by 3-4 listed companies, in Romania there is a more diversified pool of equity instruments to invest in, 12 blue chips making more than 95% of the total trading value. This shows the free float and liquidity growth potential on medium and long term for the Romanian capital market.

## Constant determination to modernize the market

The market and its regulator are constantly working on improving the investment landscape according to best practices and EU regulations, with focus on: easing investors' access to the market, reducing the cost of the market, improving the servicing of investors' rights, simplifying procedures related to primary markets for equities and bonds and developing the market infrastructure.

Dear Mr. Woods,

We'd like to assure you that we, the Romanian community of institutional investors, are a constant supporter and a partner for the development of the Bucharest Stock Exchange and the Romanian capital market and its classification as Emerging Market. For any details on the information presented above, please feel free to come back to us at any time.

Sincerely yours,

Ionut Simion,

President  
AmCham Romania

Ana Bobirca,

President Financial Services TF  
Coalitia for Romania's Development

Franz Weiler,

President  
Foreign Investors Council

Radu Hanga,

President  
Romanian Asset Managers  
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Adrian Marin,

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