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## RECENT DEVELOPMENTS OF THE ROMANIAN CAPITAL MARKETS

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

4 IPO's, with a total value of EUR 272 mn, and 9 bonds listings and issuances, with a total value of 1.3 EUR bn, took place on the Bucharest Stock Exchange (BVB) in 2017. It proves the capacity of the Romanian capital market to attract foreign investors for large transactions (in May 2017, Digi Communications NV, EUR 207 mn) and 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 bonds 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 amount of EUR 550 mn, issued by the real estate unicorn Globalworth.

At the beginning of 2018, a new IPO of the wining company Purcari Wineries was concluded successfully, with a value of almost EUR 40 mn.

## Growing trading values in 2017 vs 2016

The total value of trading on the regulated market increased by 25% in 2017, with an average daily trading value of EUR 12.1 mn.

Segment	Total trading value 2017 EUR mn	Total trading value 2016 EUR mn	% change*
Total Regulated Market	3,005.8	2,458.3	+25%
Total Equities	2,603.2	2,060.7	+29%

Segment	Average Trading Value 2017 EUR mn	Average Trading Value 2016 EUR mn	% change*
Total Regulated Market	12.1	9.7	+28%
Total Equities	10.5	8.1	+32%

\* % change calculated in RON, excluding FX impact. Source: Bucharest Stock Exchange

## Domestic market cap reaching EUR 20 bn

The domestic market capitalization of BVB reached EUR 20 bn in 2017, up 17% compared to 2016, provided by 87 local companies. The figure was achieved due to new listings and growing market prices. In addition to that, the Romanian Capital Market recorded one of the highest dividend yields in the world in 2016 and 2017. BET Total Return (BET-TR) index, which follows the price evolution of top listed companies along with the dividends granted by the blue chips listed on BVB, has increased by more than 19% in LCY terms in 2017, reporting one of the fastest growth among all 23 MSCI Frontier Markets Index countries. *BVB calculations based on BVB data as of 29.12.2017*

## Consolidating pipeline of private companies

With a breakthrough in private deals at BVB, there is a growing pipeline of private companies interested in floating shares or bonds on BVB's markets. As a result, in 2017, Bucharest Stock Exchange registered one of the best period in its history regarding private companies' listings: 4 companies came to the BVB's main market (Digi Communications, AAGES, Transilvania Broker de Asigurare, Sphera Franchise Group). As to the bonds, BVB market was used for financing by International Investment Bank, Globalworth, UniCredit Bank, NE Property Cooperatief U.A., Superbet, Vrancart, Investia Finance Group, Bittnet, Impact Developer and Contractor.

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## Updating the legal framework for Lending & Borrowing operations

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.

## 2nd Pillar pension funds

Total assets of local pension funds are projected to reach EUR 10bn towards the end of this year, paving the way for further contribution to the development of the local capital market. With holdings in excess of EUR 1.7bn on the Bucharest Stock Exchange, local pension funds have become the largest institutional investors on the local capital market. 2nd Pillar pension funds amount for over 95% of these holdings. Long-term, stable investors, P2 pension funds currently account for 15% of the market's trading volumes and an estimated fifth / up to 20% of the IPOs. The private sector supports the current architecture and development of the system.

## Improving trading and settlement

1. **Trading and settlement** on the local capital market directly in **EUR** became available as of September 2017. International Investment Bank was the first issuer to place bonds denominated in euros, using Romanian capital market infrastructure.
2. The whole process of settlement of transactions with financial instruments concluded on the Bucharest Stock Exchange and registered with Depozitarul Central's system is performed according to applicable international standards by using the "**delivery versus payment**" principle (**DvP**).The settlement of securities transactions on a DVP basis ensures that principal risk is eliminated by making settlement of securities conditional on provision of cash. Depozitarul Central fully meets the ESCB - CESR2 Recommendation no.7 - Delivery versus payment".
3. **EU standards for corporate actions processing** were 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.

4. Significant improvements were brought by a new **Issuers Law** in terms of harmonization of the local provisions with the European in force requirements 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.
5. All primary capital market **legislation is available also in English** on the website of the Romanian Financial Supervisory Authority, together with the big majority of the secondary legislation. Also, own regulations of Bucharest Stock Exchange and Central Depository are available in English on the company's website.

## Ongoing reforms 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.

## Challenges

- **Lower focus on Corporate Governance of SOEs**, as since 2017, all top 5 SOEs listed on the first tier of the Bucharest Stock exchange (Romgaz, Transelectrica, Transgaz, Nuclearelectrica, Conpet) have board members and CEOs appointed on an interim basis.
- **Delays in Hidroelectrica's IPO, estimated to become the largest IPO to date on the Romanian market**, despite that the Romanian Government approved the listing of the state-owned largest energy producer in Romania in 2013.
- **Possible changes to the private pension system**, given recent political discussions to alter the existing Pillar II pensions, after lowering the contribution to the mandatory private pension system from 5.1% to 3.75% out of the gross salary starting 2018.