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Romania engages in comprehensive programme of capital market reforms

Romania is engaged in a package of capital market reforms designed to increase its attractiveness as an investment market. The Bucharest Stock Exchange (BVB) and Depozitarul Central (DC), the Romanian central securities depository, are working in liaison with market participants and with the Romanian financial and governmental authorities to drive through a body of reforms that will, they hope, create a more efficient, user-friendly environment for fund raising and investment – and ultimately will lead to Romania being promoted from MSCI's Frontier Market to Emerging Market status

Bursa de Valori București (BVB) has been a key player in driving this initiative forward. In early 2014, it identified "Eight Barriers" that must be addressed as a priority in order to improve the efficiency of operation of Romania's capital markets. In response to this initiative, the financial authorities have introduced reforms designed to simplify registration and account opening procedures for foreign investors, thus improving access to the market and reducing the bureaucratic obstacles facing non-resident investors. Registration applications and supporting documentation can now be submitted in English and issuer documentation (prospectuses, company reports, ballot documentation) is now generally made available in English. In line with this initiative, a new Capital Market Law has been prepared for the Romanian market and this is likely to become active during 2015. The law facilitates access to the market, improves shareholders rights by enforcing new governance and transparency standards, lifts the ownership limits at market operators and simplifies the public offerings process, with the purpose of extending the base of local and international investors.

To encourage listings and trading activity, the Bucharest Stock Exchange has reduced trading fees and has been working with local broker-dealers in order to increase liquidity in a broad spread of equities listed on the exchange. The Romanian Financial Supervisory Authority (FSA) has also contributed to efforts to make the market more attractive by approving fee reductions, mainly affecting purchase transactions, which became effective from September 2014.

Alongside these developments, BVB and DC have amended their Rulebooks to require a full separation of trading and post-trade systems, together with the migration to a T+2 settlement cycle, effective from October 6th, 2014. Andrei Mezdrea, Head of Group Securities Services Romania at Raiffeisen Bank International (RBI), explains that the successful implementation of the two projects introduced a new settlement mechanism consisting of two distinctive steps and account set-ups: conclusion of transactions on a trading account and allocation of the consequent transactions to the custodial account of the beneficiary. The segregation of these systems also sets the scene for further improvements in the trading and post-trading environments, needed – for example on DC's side – for a better integration into T2S.

The past 12 months have been very much a year of reform and new initiatives, explains RBI's Mezdrea. While many of these provisions are already standard practice in well-established financial markets in the EU and other parts of the world, these are now bringing Romania more fully into line with international best practice.

In parallel with efforts led by BVB through the "Eight Barriers" programme, the Coalition for Romania's Development, an independent group pooling together the efforts of a range of business and financial services organisations in Romania, has played an energetic role over the past 18 months in attempting to promote capital market reform and upgrade the market infrastructure. The Coalition's representative, Valeriu Nistor, has set the goal of promoting a significant improvement in Romania's position in international trade rankings. The Coalition has called for a freeze on fees and taxes applied to investment activity in the Romanian market and has called for any amendments to tax legislation to be published at least six months before these come into force.

The financial regulatory, FSA, has approved a project, entitled STEAM ("Set of Actions towards the Acknowledgement of Emerging Markets Status") which aims to improve the market's status in terms of its capitalisation, liquidity and access to investors as part of steps to see the market reclassified by MSCI to Emerging Markets status. Through this initiative the regulator wishes, inter alia, to encourage the development of a local primary and secondary bond market for both municipal and corporate fixed income securities. It aims to strengthen corporate governance principles relating to issuers, intermediaries and market infrastructure, as well improving the operation of securities lending and short selling facilities in the Romanian market.

"We can broadly view these initiatives as parts of a sizeable jigsaw that complement each other in building a more efficient market," states Mezdrea. "These measures each will contribute to a broader and more liquid market for equities and fixed income investment and a more efficient structure through which government, municipal and corporate issuers can raise capital from international and domestic investors."

Bogdan Zurbagiu, Relationship Manager for Securities Services at SGSS Romania, notes that a couple of sizeable IPOs have raised the international profile of the Romanian market over the past 12 months. In November 2013, the Romanian government sold off a 15 per cent stake in state-controlled gas producer Romgaz, raising €383 million in an initial public offering which was heavily oversubscribed. Approximately 60 per cent of this issuance was purchased by foreign investors. A second major IPO, in state-owned energy distributor Electrica, was conducted in June 2014 and raised €444 million for a 51 per cent stake in the company. This became the largest public offering in Romanian history and one of the largest IPOs in Europe during 2014. Both offerings were managed through a combination of share issuance on BVB and GDRs issued in London.

For Greg Konieczny, Fund Manager for Fondul Proprietatea – a large fund that was established by the Romanian government in 2005 to compensate persons that had property appropriated by the former communist government – there is much to be excited about as a major investor in the Romanian market. The country is a significant producer of natural gas and will potentially soon become a net gas exporter as a result of sizeable offshore discoveries in the Black Sea. Romania has a broad-based foundation for electricity generation, drawing on a combination of coal and gas-driven power stations, hydro-electric, nuclear and wind power. The share of Romania's electricity generated through renewable energy (principally wind) is already well above the 20 per cent EU guideline for Member States for 2020.

As the second largest population in the CEE region after Poland, the market has potential to grow both through institutional and individual investments. The pension funds sector is in a nascent phase, but it is currently attracting approximately €1 billion in new inflows per annum that can potentially be invested into the Romanian capital market. Many foreign investors have identified Romania as one of the most attractive destinations for investment in the CEE region, with some utilising Fondul Proprietatea as essentially a one-stop shop for building their exposure to Romania's economic development.

Though trading volumes on BVB are currently lower than on the Budapest or Prague Stock Exchange, BVB's CEO Ludwik Sobolewski is confident that, in investment terms, Bucharest has more to offer than these competing locations. The range of investible securities on BVB is wider than on many other CEE exchanges and the concentration of turnover is lower. Moreover, many securities listed on BVB offer attractive dividends. The average dividend yield for 10 most traded BVB-listed stocks was around 6 per cent in 2014, but in the energy sector, a flagship sector for the Romanian capital market, this was around 9 per cent.

Andrei Mezdrea confirms that RBI's priority is to continue to develop innovative products and tailor made solutions in support of domestic and foreign investors, with a focus on opening new opportunities for their clients, as well as simplifying investors' access to the market and the CEE region.

RBI has been appointed by BNY Mellon in Romania to support custody of securities for its GDR programme. Under the initial DR Regulation approved in October 2013, the issuance of GDRs was permitted only in conjunction with public offerings. Following recent modification of the DR Regulation, the issuance of GDRs is now permitted on all equities listed on the BSE.

Standard provisions such as use of ex-date and pay date structures to support payment of entitlements to securities holders are now being adopted in the Romanian market, thus bringing Romania more into line with international best practice. "Recent reforms are granting investors more favourable access to the market and are strengthening investor relations, particularly for the international investor community," says RBI's Mezdrea. "For the Romanian capital market, 2014 was the year of reform. We are confident that 2015 will be the year when the market community begins to reap the fruits of the efforts made in 2014." ■