

PARLIAMENTARY ASSEMBLY OF THE BLACK SEA ECONOMIC COOPERATION
PABSEC

DOC: GA 3964/98

Bucharest, 24 June 1998

THE ELEVENTH PLENARY SESSION OF THE PABSEC GENERAL ASSEMBLY
THE ECONOMIC, COMMERCIAL, TECHNOLOGICAL AND ENVIRONMENTAL
AFFAIRS COMMITTEE

REPORT
ON
“THE BSEC STOCK- AND COMMODITIES EXCHANGES”

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I. INTRODUCTION

1. The forging of close economic and commercial ties between the countries of the Black Sea has been one of the first priorities of the PABSEC since its inception, and its members have in numerous occasions expressed their will to continue putting them at the forefront of their future cooperation.
2. In the light of the Declaration of Intend for the Establishment of the BSEC Free Trade Area, PABSEC was the first body of the Black Sea cooperation process that adopted Recommendations concerning aspects of the free trade area with its Recommendations 22/1997 on the “BSEC Free Trade Area: Part of the New European Architecture”, and Recommendation 23/1997 on the “Harmonisation of the Foreign Trade Regimes of the BSEC Participating States”.
3. By taking up the subject of the Stock- and Commodities Exchanges in the BSEC region, the Parliamentary Assembly expresses its belief that developed financial markets are a prerequisite for the smooth functioning of the market economy, of which Stock- and Commodities Exchanges represent an important component, since they will attract foreign direct investment while additionally allowing businessmen in the Black Sea region to invest in other countries and to establish joint-ventures that will reap the benefits of any measures leading towards harmonisation of foreign trade regimes.
4. The purpose of this Report is two-fold: (i) concerning the Commodities Exchanges to propose the creation of a regional structure where grain and oil will be traded, while (ii) concerning the Stock Exchanges to provide information on their operations to the members of the Assembly, as well as to outline a series of general measures that will contribute to their closer collaboration.
5. PABSEC has in the past adopted the relevant Recommendation 9/1995 on “The Development of Cooperation in Banking and Finance among the BSEC Member Countries” and Recommendation 16/1996 on the “Development of Cooperation in the Field of Trade and Business among the BSEC Member Countries”. Likewise, the Black Sea Economic Corporation (BSEC) has organised a meeting of the officials of the Stock Exchanges, of which the Ninth Meeting of the Ministers of Foreign Affairs took note, while asking the respective competent authorities to continue collaborating along the lines of ideas and suggestions expressed.
6. For the present Report the Rapporteur and the PABSEC International Secretariat received contributions from the Delegations of Armenia, Romania and Turkey, but made an effort to collect information through their own research in order to introduce information on the bourses for which information could be obtained by other sources.

II. THE EXCHANGES OF THE MEMBER COUNTRIES

7. Below follows a brief description of the Commodities Exchanges and the Stock Exchanges of the PABSEC countries, where information could be obtained.

ARMENIA

8. There are three exchanges in Armenia: the Yerevan Stock Exchange, the Yerevan Commodity Stock Exchange and the Gyumri Stock Exchange. The volume of transactions in the **Yerevan Stock Exchange** was \$68 million in 1995, \$15 million in 1996 and \$2.6 million in 1997. In December 1997 the number of listed companies was 54, and the capitalisation of securities market \$14 million. It is a member of the Federation of Euro-Asian Stock Exchanges.

9. The **Yerevan Commodity Stock Exchange** has 200 member organisations and the volume of transactions for 1997 was \$530,000. The volume of transactions of the **Gyumri Stock Exchange** was \$8.6 million in 1995, \$4.7 million in 1996 and \$920,000 in 1997.

AZERBAIJAN

10. The first exchange in Azerbaijan was founded in Baku in 1887. In 1992 the Parliament of the country legislated the law on securities and stock exchanges, in which key principles of the stock market of the country were formulated.

11. Joint stock closed type company "Baku Interbank Currency Exchange" was founded in 1993 as a currency exchange. The foreign currency turn over in 1997 was 671m USD (in 1994 it was 13.1m, in 1995 282m., in 1996 616.2m).

12. In 1996 the exchange was licensed to trade in securities. Trade volume in securities was 46m USD in 1997. The quotation list of the exchange includes the government securities and shares of commercial banks. Trading is fully automated. BICEX is a corresponding emerging market of FIBV.

BULGARIA

13. The stock market began to function in 1991 and during the following two years some 20 stock exchanges sprung up across the country. In March 1997 the government decided to set up a national stock exchange, leading in July 1997 to the creation of the **Bulgarian Stock Exchange-Sofia**, through the merger of the Bulgaria and the Sofia Stock Exchanges. The first trading session of the new Exchange took place on 21 October 1997.

14. The Bulgarian Stock Exchange- Sofia has been established as a non-profit, joint-stock company, with 49% state ownership. At present, the capital of the BSE amounts to BGL 199 million (DEM 199,000), but this will be increased to BGL 300 million. The Exchange currently has 176 shareholders comprised of the Ministry of Finance, banks, brokerage firms, insurance companies and a number of individuals.

15. The Bulgarian Stock Exchange has initiated a project of modernisation, which started in 1996 and is expected to be finalised until the end of 1998, including the relocation to a new building and the establishment of a modern computerised system for trading.

16. The BSE - Sofia is an associate member of the Federation Internationale des Bourses de Valeurs and a founding member of the Federation of Euro-Asian Stock Exchanges.

GREECE

17. The **Athens Stock Exchange (ASE)** was established in the second half of the 19th century, in 1876. It was transformed into a limited company in 1995, supervised by the Ministry of National Economy.

18. The securities currently traded on the ASE are shares of the listed companies, government bonds, public corporations and corporate bonds, convertible bonds, bank bonds, Deutsche Marks, US Dollars, ECUs and British Pounds linked bonds, as well as bonds of international organisations. Gold pounds and gold bars are rarely traded, while options, futures and other derivative products started being traded in 1996.

19. Trading in shares is performed through an Automated Exchange Trade System, which is connected electronically to international data vendors, such as "Reuters", "Telerate" and "Bloomberg". Consequently, foreign investors are being informed on line.

20. At the end of 1997 the market capitalisation of ASE closed at \$25 billion, 17% higher compared to the end of 1996, while at the beginning of 1998 the daily traded value is approximately \$110 million.

21. The ASE is a full Member of the Federation Internationale des Bourses de Valeurs.

22. The **Thessaloniki Stock Exchange Centre** was established in September 1995 upon agreement between the Athens Stock Exchange, the Chamber of Commerce and Industry of Thessaloniki, as well as various Banks and brokerage firms. Among its objectives, its main purpose is to attract new listings of dynamic companies of the Balkan states. This will allow the companies of the Balkan states to raise capital through the Greek organised Capital Market, while in the same time it will provide the private and institutional investors with the ability to properly diversify their portfolios by investing in securities of different regions. Furthermore, it will attract international investors who want to invest in the region but cannot bear all the difficulties related to information, laws and regulations, currency exchange rates etc. Ultimately, the development of the Balkan Stock Exchanges will be supported, while the political and economic ties with the Balkans will be reinforced.

ROMANIA

23. With the approval by the Parliament, in 1994, of the new Securities and Stock Exchanges Act the legal framework required for the establishment of a modern capital market had been laid out. The **Bucharest Stock Exchange** was set up by the decision of the National Securities Commission. Although a public entity, the Exchange is effectively managed by its members, initially 24 securities companies that formed the Stock Exchange Association. The Exchange is a self-financing institution, collecting revenues by charging fees for the services it provides.

24. There are 12 Commodities Exchanges currently operating in Romania. The total volume of transactions registered by the Romanian Commodities Exchanges in 1997 was approximately \$19 million.

25. The **Romanian Commodities Exchange (RCE)** was established in 1992. The RCE is a result of a private initiative and it is organised as a joint stock company with an equity standing at ROL 1.7 billion and is a self-governing organisation. It deals with three markets: first market for commodities like grains and flour, fuel oil, gas oil, non-ferrous metals, cement and timber, a second market for agricultural and food products, chemicals and fertilisers etc., and a third market for consumer goods, real estate and precious stones.

26. The **Maritime and Commodity Exchange of Constanta (BMMC)** was founded in 1993 by a group of companies, most of them privately owned. The BMMC trades in grains, metal, timber and oil petrochemical products. The BMMC has a network of trading agencies all over Romania, as well as representative offices in New York, Piraeus, Singapore, Tel Aviv and Johannesburg. In December 1995 the BMMC launched three projects, concerning (i) implementation of futures contracts, (ii) development of computerised futures system, and (iii) database development.

RUSSIAN FEDERATION

27. The first law dedicated to the Russian securities market appeared on December 28, 1991. There are currently three regulatory bodies involved in the securities market: the Central Bank of Russia; the Ministry of Finance paired with the Federal Tax Service; and the Russian Federation Commission on Securities and the Capital Market.

28. Russia has no physical, centralised exchange for stock trading. In theory, there are more than 100 licensed stock exchanges throughout Russia. Only 14 of these report on daily trading sessions with daily volumes of several thousand dollars.

29. However, the local financial community is expending substantial effort to develop an organised marketplace in Russia. One of the most important initiatives has been the creation of a self-organised body called the Professional Association of Securities Market Participants (PAUFOR), which has more than 30 first-tier market makers among its members. This association is developing a trading system - the Russian Trading System (RTS). In September 1995, PAUFOR launched its own index based on actual transactions by all of its members on the Russian Trading System.

30. The establishment of the Russian equity market began in 1703 when the Saint Petersburg Exchange was set up by the Order of Tsar Peter the Great. The **Saint Petersburg Stock Exchange** (SPSE), the largest exchange in the North-West of Russia, was re-established in 1991 as a joint stock company. SPSE has 470 shareholders, more than 300 registered brokerage firms, while 100 of them have their representative offices at the Exchange. In 1995 the total turnover of instruments traded at the SPSE was more than 920 bln. roubles, of which 561 bln. roubles included transactions with corporate shares, St. Petersburg Municipal Bonds, and Government bonds. SPSE is a corresponding member of Federation Internationale des Bourses de Valeurs.

TURKEY

31. The regulations outlining the functions and operations of a stock exchange in Turkey were adopted in October 1984. The **Istanbul Stock Exchange** (ISE) was established in early 1986. The ISE is the only securities exchange in Turkey, established to provide trading in equities, bonds and bills, private sector bonds and foreign securities.

32. The ISE is a semi-public organisation, enjoying a high degree of self-regulation. The ISE consists of the following markets: the National, Regional, New Companies, Whole Sale and Watch List Companies Markets, the Bonds and Bills Market, the Derivatives Market and the International Market. The International Market was established in 1996, operates in a tax-free environment and enables individual and institutional investors to generate revenues in US dollars or other foreign currencies.

33. The ISE initiated in November 1994 full automation of stock trading. At the end of 1996 the market capitalisation of ISE was \$31 billion, while the Composite Index registered an increase of 40% in terms of US\$. The number of companies traded was 228, and the average daily traded value in the Stock Market was \$153 million.

34. The total traded value in 1996 of the Bonds and Bills Market reached a total of \$254 billion, having an increase of 82% compared with 1995.

35. The ISE is a full Member of "Federation Internationale des Bourses de Valeurs" (FIBV) and of the "Federation of the Euro-Asian Stock Exchanges" (FEAS), which we will examine below.

36. There are currently 96 Commodities Exchanges in Turkey, supervised by the Ministry of Industry and Trade. Their combined trade volume was TL 1,270 billion in 1996.

UKRAINE

37. At present there are four stock exchanges in Ukraine namely, the Ukraine Stock Exchange (USE), the Ukraine Interbank Currency Exchange (UICE), and the Donetsk Stock Exchange (DSE). A work on establishing a stock exchange on the basis of the Krym Interbank Currency Exchange (KICE) is being carried out.

38. In 1997, the volume of transactions in Ukrainian markets was:

Name of the market	The amount of transactions	The amount of sold securities	Volume of transactions (grivna)	Rating
UICE	685	32,368,726	372,103,663	1
CSM	3,831	442,253,896	350,542,876	2
USE	496	63,937,716	23,109,102	3
KISE	57	7,085,474	4,709,202	4
DSE	1,650	4,469,956	2,152,700	5
Total:			752,617,535	

39. In 1997, the shares sale constituted 0,62% and bonds sale - 99,38%. In comparison with 1996 the tendency to concentrate the trade in CSM has appeared and it comprises 47% of the whole volume of securities sale in stock exchanges licensed by the State Commission on Securities and Stock Markets (including the trade OVGS). The share of UICE in the total sale of securities rose from 29% to 49,44% (of which 0,31% are shares and 43,13% - OVSG, while in 1996 OVSG exclusively comprised 29%). It should be noted, that amount of transactions performed in UICE, decreased from 1699 transactions in 1996 to 685 transactions in 1997. This means that the average volume of every transaction has been significantly increased.

40. In USE, the amount of transactions decreased from 1145 transactions in 1996 to 496 transactions in 1997 with the simultaneous decline of total sale of securities from 31,610 grivna in 1996 to 23,109 grivna in 1997. Therefore comparing with 1996, the rate of USE in the whole sale of securities in the exchange market decreased from 70% to 3%. The amount of transactions fulfilled in DSE drastically increased from 16 in 1996 to 1,650 transactions in 1997. However it did not affect on the volume of securities sale which constitutes only 0.29% of the total volume of securities sale at the whole exchange market.

III. MULTILATERAL COOPERATION

41. There is a number of recent initiatives that deal with the cooperation of the Exchanges of the Black Sea region.

a. The BSEC - Istanbul Stock Exchange meeting on capital markets and areas of cooperation in the Black Sea region.

42. The meeting was held on 3-4 April 1997 at the premises of the Istanbul Stock Exchange with the participation of representatives from all 11 countries. The participants included among others Presidents of the Stock Exchanges of BSEC countries and General Managers of Interbank Currency Exchanges.

43. The participants decided the following:

- To maintain direct regular contacts with a view to exchange experience, know-how and information.
- To promote cooperation among the BSEC stock exchanges in order to encourage the joint companies established within the region to undertake cross-listings.
- To work on common marketing strategies to draw the attention of the international investors to the region.
- To encourage the establishment of regional funds and the creation of indices on the securities traded in the region.
- To invite the BSEC stock exchange organisations to become members to FEAS.

44. The flow of information related to stock exchanges constitutes one of the main elements shaping the frame of mind of potential investors. In this context disclosure through prospectus is an essential instrument which helps the interaction between investors and securities markets. Disclosure principles channelled together with legal liabilities, build the confidence of investors towards stock markets, help them to select promising investment options, hence the growth of stock exchanges. To overcome malpractices in this respect, more transparency, enhanced comprehensive regulatory measures and effective control, which may differ from country to country, are required.

45. There is an essential relationship between international accounting standards (IAS) and financial reporting: in cases where two or more countries have commercial relationships and exchange capital flows they need to look at the financial information produced by their counterparts. At this stage to be able to take the right decisions, economic and financial operators of one country must be able to understand and use the financial information produced in another country; here evidently a common language is required. This is specially important for those companies which are looking for capital on the international markets. The gap between the national and the international financial reporting is bridged by the employment of IAS. The world is moving towards a single global market and the adoption of IAS in all countries will have a significant impact towards global harmonisation of financial reporting. Therefore, those who have not yet set up any accounting/reporting standards may better move towards the adoption of IAS from the start instead of developing their own standards.

46. The Ninth MMFA in Istanbul on 30 April 1997 asked the respective competent authorities to continue collaborating along the lines of ideas and suggestions expressed and to hold a next session as a follow-up of the said meeting before the next MMFA.

b. Federation of Euro-Asian Stock Exchanges

47. The Federation of Euro-Asian Stock Exchanges (FEAS) was established, at the initiation of the Istanbul Stock Exchange, on 16 May 1995. Founding members numbered 12 stock exchanges in emerging markets in Europe and Asia, at different stages of development. Membership is open to exchanges located in Europe and Asia, subject to approval by the General Assembly. Currently, there are 22 member exchanges representing 6,919 traded companies and a market capitalisation of over 160 billion US dollars on an average daily traded value of over 350 million US dollars (Figures as of November 1997).

48. From the BSEC countries, the Bulgarian, Istanbul, Moldovan, Tirana, Ukrainian and Yerevan Stock Exchanges are members of the FEAS, while its headquarters are located at the premises of the Istanbul Stock Exchange.

49. The organisational structure of FEAS, as set by its Charter, is comprised of a governing body, the General Assembly, which includes all 22 members of the Federation. The President and Vice President preside over the General Assembly, which meets once yearly in a member country.

50. The President and Vice President positions are elected by the General Assembly for a term of two years and renewable for one additional two year term. These positions are represented by Exchanges or an Association of exchanges that are members of the Federation.

51. The Federation's working Committees have started an effort towards the adoption of International Accounting Standards in their reporting formats and towards developing uniform applications in disclosure and listing requirements. The results of these activities are recommendations, where members are given total freedom in their application of such procedures. Besides these activities, in 1996 a "rules and regulations guideline" book has been published to facilitate cross-border trading.

c. Cooperation between the Bulgarian, Greek and Romanian Stock Exchanges

52. The Athens Stock Exchange, the Bulgarian Stock Exchange and the Romanian Stock exchange signed in September 1997 a Memorandum of Understanding. The purpose of the Memorandum was to establish close contacts and cooperation with the stock exchanges in the Balkan region, in view of the regional cooperations which are already developing in Europe. It was agreed to form a Technical Committee to study, in detail, different aspects of cooperation, in the areas of listing and electronic trading. Two meetings of this Committee have been so far realised and it is envisaged that individual agreements for exchange of information will be signed between the markets concerned in the forthcoming months.

IV. THE PROJECT

a. The necessity to expand an organised market

53. In order to ensure an adequate economic framework for the current trade exchanges between BSEC member countries, it is recommended to create an integrated system as a basis for an eventual establishment of a joint market for commodities and/or equity (securities). In achieving this cooperation, the interrelations between the national markets (stock and commodities exchanges) and the common wish for developing a regional market connected to the present global market have to be taken into account.

54. For achieving the integrated market the integrity of each national market and the establishment of an interface both with the other national markets and with the international markets must be given priority.

55. Briefly, the necessity for integration results from:

- Setting up a solid system at the common market level on the whole, in order to protect all the participants in the market (investors, producers, merchants, consumers) and to ensure its integrity. From this point of view, integration is needed at least at the market regulation level. The advantages of such a regulatory body are obvious for all the market organisers, even if integration could stop at only this level.
- Creating a competitive and fair environment for all the participants in the market.
- Harmonising with regional (EU) and international (IOSCO- International Organisation of Securities Commissions - established for world-wide futures and capital markets) market trends, at the levels of both market regulation and jointly-

used recourses, establishing computerised transaction links and harmonising clearing activity in order to protect investors.

- Optimal use of resources (by common exploitation of some components) with beneficial effects on reducing the costs needed for development of financial markets.
- Creating an internationally competitive regional market by joining the efforts of the participants from the Black Sea region, winning the investment competition with other commercial zones or emerging markets which will be advantageous for all Black Sea participants.

b. Defining the project

56. In order to achieve this aim, we have to define the final objectives to be carried out by this market, as well as the strategies for attaining them.

57. Briefly, the main objectives are as follows:

- to expand an organised physical market (spot) which aims to standardise transacted goods and services (transaction, storage, transportation etc.) and to bring to the fore representative markets from each participant country. By the latter, we mean to develop some common components of the market for a commodity or service, where such a commodity or service exists, or is produced in a significant and cost-effective manner.
- to expand a futures market (Exchange):
 - for commodities, aimed at ensuring a procedure agreed on by all the participants;
 - financial, aimed at both ensuring the liberalisation of the currency exchange rate and supporting the achievement of a real convertibility between the currencies of the participating countries.
- to expand a capital market taking into account the joint investments. It is necessary to introduce special regulations in order to protect foreign investors in each of the BSEC participating countries.

58. In order to accomplish these integration objectives and reassuring the supremacy and integrity of each national market, the following measures are proposed:

- to create an interface between the national participating markets (bilateral and multilateral protocols);
- to set up certain necessary standards for the operation of the joint market regarding commodities, contracts etc.;
- to harmonise regulations on reports and listings within the market;
- to develop some functional components of common interest.

59. According to above-mentioned, the joint integrated market will consist of the following components:

- a) a regulatory and guidance body;
- b) functional joint components (clearing house, information dissemination systems, computerised transaction systems, specialised markets);
- c) integration of national components; organised national markets will integrate by setting up an interface necessary to their connection at a regional level;
- d) components necessary for linking with the international markets.

60. Selection of a place for a regional component or the development of a national component should be made according to economic efficiency criteria (presence of local resources, participation in international projects, etc.). The set of criteria has to be established at the same time with the initial definition of the project, in order to avoid subsequent conflicts of interests.

61. In accordance with the above presentation, the Romanian PABSEC Delegation proposes to establish in the Constanta Free Zone a joint **Regional Commodities Exchange for Grains and Oil** which will include components both for spot market and futures market. There are many projects, supported by the World Bank, aiming at establishing warehouses for grains in Constanta zone, while additionally Constanta has an adequate infrastructure of transport and processing both for grains and oil.

V. CONCLUSIONS

62. In the wide project of the harmonisation of the legislations of the member countries, that has been consistently been a priority for PABSEC, harmonisation of laws and regulations pertaining to the financial markets will boost trade and investments in the Black Sea region, both originating from inside the region and from international markets.

63. In order for the countries of the Black Sea region, and especially the countries in transition, to attract foreign direct investment they have to adopt internationally accepted standards of listing, accounting, auditing and reporting. The Exchanges in the BSEC countries should strive to adopt the International Accounting Standards in their operations. This will facilitate cross-listings and attraction of foreign direct investment into the regional market.

64. Additionally the electronic linking between the bourses of the region would provide valuable information on stock prices and in general market developments. Common marketing strategies should be developed with a view to draw the attention of the international investors to the region. These will be facilitated by the establishment of regional funds and the creation of indices on the securities traded in the region.

65. The countries of the Black Sea should continue their cooperation in the field of the Stock- and Commodities Exchanges, and should therefore give their support to any efforts of bilateral and multilateral cooperation in this respect. The Stock Exchanges of the BSEC countries are encouraged to become members of the Federation of Euro-Asian Stock Exchanges which is paving the way for increased cooperation between 22 Exchanges of Europe and Asia, as well as to establish closer cooperation with the federation of European Stock Exchanges.

66. Correspondingly, the collaboration of the Bulgarian, Greek and Romanian Stock Exchanges should be encouraged and the creation of the Thessaloniki Stock Exchange Centre should be noted for the possibilities it offers to new dynamic companies of the Balkan, but also of the BSEC region in general.

67. The area of Commodities Exchanges is the one that looks currently the most promising in the field of intra-regional cooperation. This would offer a regional market where commodities are traded on a more centralised level than is the case now.

68. To that end, the Rapporteur proposes the creation of a "**Regional Commodities Exchange for Grains and Oil**" in the free trade zone of Constanta, taking into account that Constanta has extensive warehousing facilities for grains and an adequate infrastructure of transport and processing both for grains and oil.

69. The PABSEC proposes to the MMFA to consider this proposal in order to reach a formal decision on the creation of the "**Regional Commodities Exchange for Grains and Oil**" in the free trade zone of Constanta.