

DEVELOPMENT PERSPECTIVES OF SECURITIES SECONDARY MARKET IN REPUBLIC OF MOLDOVA

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It's an urgent necessity to determine the specific problems of the securities market in Republic of Moldova, in the context of policies and strategies of accession to the European and International activity standards, performance and quality, along with the implication and effects of the international financial crisis.

Identification of the influence factors with negative on the secondary market will enable the formulation of recommendations, proposals, improvement and refreshing techniques for the capital market as a whole. The analysis of the secondary market indicators allowed concluding on a high degree of uncertainty and predictability of its evolution. Legislative and regulatory issues on the securities secondary market activity of professional participants, admit the interpretation duality of provisions concerned. National Commission of Financial Market activity as a mega-regulator of the financial market, although involving a increased complexity of activities concerning supervision, control and regulation of the financial (non-banking) sector, do not enjoy great efficiency in terms of stabilization and promotion of the financial sector. The appearance of a stock institution as an alternative to the existing one, after 20 years of experience of the latter, theoretically opens new market opportunities, although in practical terms, at this moment of time, the market participants are reserved and undecided on the future development trend of the secondary market.

The study is based on statistical data contained in annual reports of the National Financial Market Commission and published on the official website of JSC „Stock Exchange of Moldova”, analysis of legislative and regulatory provisions and international practices. The statistics cover the whole period of operation of the secondary market in Republic of Moldova, that is from 1995 to 2012, as much as the stock market segment and the counter. The research methodology was based on content analysis, scientific observations, classification, and graphic representation of the investigated phenomena.

The paper will contribute to the identification of the secondary market problematic issues and will present a variety of solutions, which will help to review the secondary market development strategies, in particular, and of state policies on financial markets in general.

Keywords – securities secondary market, transactions, stock exchange, finance.

JEL Classification codes: O16, G18, G24

1. Overview concerning the securities market and its reform

Capital markets through financial instruments, makes one of the most important functions in a national economy – funding of it. This is done directly on the primary market through shows of securities, whether public or closed; the secondary market is a movie indirect influence through price, information, expectations, etc. Representing an emerging market, securities market from Republic of Moldova, in the last 20 years has been subject to conceptual and structural reforms, with purpose to enliven the situation and attract more participants.

In this respect, the first reform began in 1996-1997 with the need to determine the fundamental principles of operation of securities markets components and directions of activity of professional

participants prior to the legislative and regulatory framework, having a specific temporary character ensuring the mass privatization of state assets. The key objectives of the National Securities Commission (NSC) (reorganized in 1998 the State Commission for Securities Market) in insuring development of securities markets were:

- connecting of legislative - normative framework, international standards on the movement of securities and activities of professional participants;
- ensuring competitiveness of professional participants both internal and external markets and the possibility to operate - from year to year on external markets to increase its regulatory capital on minimum level of professional participants;
- orientation securities transactions for stock sector, including through the legislative-normative provisions and diversifying types of operations made in; stock;
- promoting information disclosure both by professional participants of securities market, as well as by issuers, investors.

The next reform of the securities market started in 2004 with the launch of the project of reorganization / liquidation of non-specialized non-mutual fund investment, as law successors of privatization investment funds. The tension in society on the inefficiency of investment funds required to initiate proceedings forced or voluntary liquidation of investment funds unable to provide or repurchase its shares from shareholders as provided by law (at least 50% of the nominal value) or reorganization of these in ordinary joint stock companies with the condition of repurchasing the shares from all shareholders who submitted that request. As a result, over several years have gone the investment funds and some elements related to infrastructure (storage investment funds) and it was reviewed the exchange transactions structure, promoting transactions in interactive section, which forms the market price of securities negotiated. Moldova Stock Exchange (MSE) has changed the conditions for admission to stock exchange listing, companies being enrolled in one of two levels (previously three) only if they obtain a positive financial result (before the third level there were no restrictions on the financial result).

A new reform of the securities market started in 2006 with the establishment of inefficient policies and strategies of development of market securities separate from other components of the financial market as a whole. However, financial market can not develop and exploit the situation when its components are managed separately, with no correlation and coordination of policies and development strategies. Thus, international practices directed local authorities toward the idea to form in Moldova Mega (2007) - National Commission of Financial Market (NCFM), the legal successor of the NCSC, whose functions were the segment management in market securities, collective investments, insurance and reinsurance, microfinance and savings and loan operations in the associations. Banking sector remained under the supervision and control of the National Bank, a state body with autonomous status.

At present is projected financial market reform, based on their promotional policies:

- discussing the draft law on capital, which implies some conceptual changes of its key elements and procedures of the securities market;
- developing the concept of a central depository, which would take over the functions independent securities registrars and ensure the storage and clearing and settlement of securities transactions;
- Mega status review to determine the principles of intensive cooperation NCFM and National Bank of Moldova (NBM), to develop unique policy of financial market development.

2. Secondary market indicators

The main objectives of the state regulatory body, control and supervision of securities market in any period was refreshing secondary market segment, which is the term efficient on functioning of overall economy. The development of national economy determine trends in the securities market, in particular, the value of exchange transactions, trading profitability, market prices,

market attractiveness for domestic and foreign investors exchange, liquidity and safety operations started, etc.

The first stock exchange transactions in Moldova took place in the SA "Stock Exchange of Moldova" on June 26, 1995. Thus far have been negotiated 6035 million titles in the MDL (or 545.4 million USD). OTC in the same period were negotiated about MDL 8924.6 million (or 778.9 million USD)

Dynamic transactions can be viewed in Fig. nr. 1, with separate coverage and off-exchange transactions. Note, the lack of any form of development trend of the indicator analyzed, chaotic oscillating turnover from year to year depending on the spontaneous events. In general aspect, between the years 1998 - 2005 value of transactions fit within the 600 to 800 million, marking a relative stability. Since 2007 the indicator increase sharply, confirmed in 2008, followed by major fluctuations in 2009-2012.

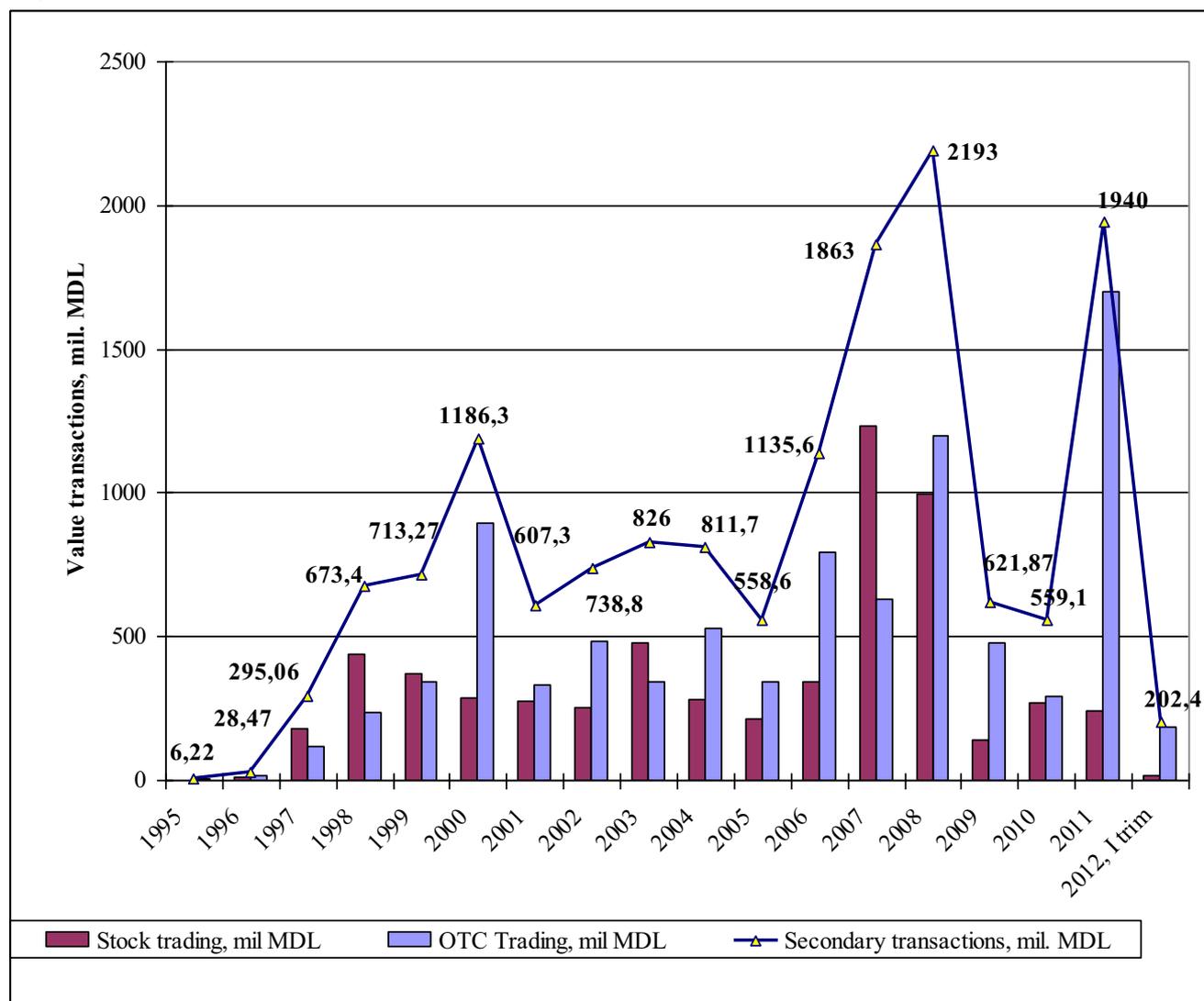


Fig. nr. 1. Dynamics secondary transactions recorded in the Republic of Moldova in 1995 - first quarter 2012.

Source: made by author based on annual reports of NCFM (NSC) for the years 2000-2011, NCFM monthly bulletins for January-March 2012, Newsletter "Stock Exchange of Moldova".

Although, since 1997, NSC promoted policies restricting secondary market OTC market directing the participants to shelf stock, note that from 2000 to 2012 only two years of prevalence of value exchange transactions have been registered on the OTC - 2003 and 2007. We note that only a security transaction determined the outcome of the entire year - through tender offer to

purchase the package of 96.5% shares of "Vitanta-Intravest" SA (Now IM "Vitanta Moldova Efes Brewery" JSC) worth 167.6 million lei (12.69 million USD). The transaction took place in January 2003 and constituted 34.89% of the annual exchange transactions and 20.29% of total secondary market transactions. In 2007 the stock market was revived thanks to the tender offers; public offerings later renamed the secondary direct transactions conducted in the Department of MSE. Their share was 65.5% of all stock transactions, a value of 808.5 million lei (71.49 million USD) in the 582 transactions involving the 27 issuers. 4-fold increase values such tender offer transactions in 2007 compared to 2006 was due to implementing the changes introduced in the Law on securities market, imposing shareholders with majority shares (50% +1 share) to initiate tender offers in order to protect the interests of small shareholders.

OTC transactions are traditionally performed on donated securities, succession and inheritance, honor obligations related collateral, company capital, split, consolidation or conversion of securities, repurchase of shares by the issuer, selling and buying of securities by individuals receipts derived from securities investment property and / or the liquidation of investment funds involved in the patrimony bond privatization, where the cumulative volume of transactions in a period of 12 months, does not exceed 1% of the total securities issued by class time.

A significant prevalence over the counter (OTC) segment is seen in the following years:

- 2000 - February privatization of electricity distribution networks - South Electricity Distribution Networks - Power Networking Centre and Chisinau, as a result entered the local market they formed ICS Spanish investors "Red Union Fenosa" SA, reorganized after the ICS "Natural Gas Fenosa" etc. Transaction value was about 264 million lei (21.85 million USD);
- 2004 - sale purchase in December of stock shares closed JSC "MMT-Bis" worth 283.3 million lei (21.79 million USD), the share transaction was 53.47% of the Total OTC.
- 2009 - recorded higher share purchase and sale transactions of shares in joint stock companies, following amendment to the law on joint stock companies have maintained its statutes purchase-sale of shares the shareholder agreement (in accordance with amendments made in law starting from 01.01.2008 JSC not fall into the closed and open type);
- 2011 - social capital contribution of foreign investors in domestic stock companies was 37.4% and judgments based on transactions - 32.7%, cumulative 70% of OTC.

The reported allow concluding local market participants tend to use all possibilities provided by the segment out of the counter on change of ownership of securities to bypass the shelf stock. As mentioned reasons: the tendency to convey particular individual securities, avoiding the training process of the market price, minimizing transaction costs.

A very important event for the securities market of the Stock Exchange was set up in Chisinau. In November 2011, the Board of the National Commission of Financial Market registered issuance of shares of joint stock companies set up "Chisinau Stock" amounting to 1.5 million and decided to grant license to stock market activity core business of securities with related activities for a period of five years. The Board of Directors meeting of January 12, 2012 NCFM were approved exchange rules, was coordinated size and the perception of taxes, fees and commissions. Exchange rates obtained permission to hold substantial shares in the company for shareholders 7. Exchange broadening of RM system marks a new period in the movement of financial instruments on the domestic market, given the newly created institution intends to trade derivatives brokers to access the trading system of stock exchange out of the shelf, to broaden the typology of transactions in stock exchange to introduce the category of market-maker, etc.

3. Foreign investors on the secondary market

Another indicator of the vitality and efficiency of the secondary market is the fence of participation of foreign investors in the securities business. 2008 financial crisis and political instability in the last three years have resulted in diminished interest foreign investors in the secondary securities market, the value of transactions of purchase and sale of securities is falling

continuously since 2007, registering the lowest 2010 values for over 15 years - purchase transactions - 14.5 million, sales transactions, 55 2 million (Fig. 2). However, 2010 is shaping the tendency of selling packages of shares in domestic companies issuing.

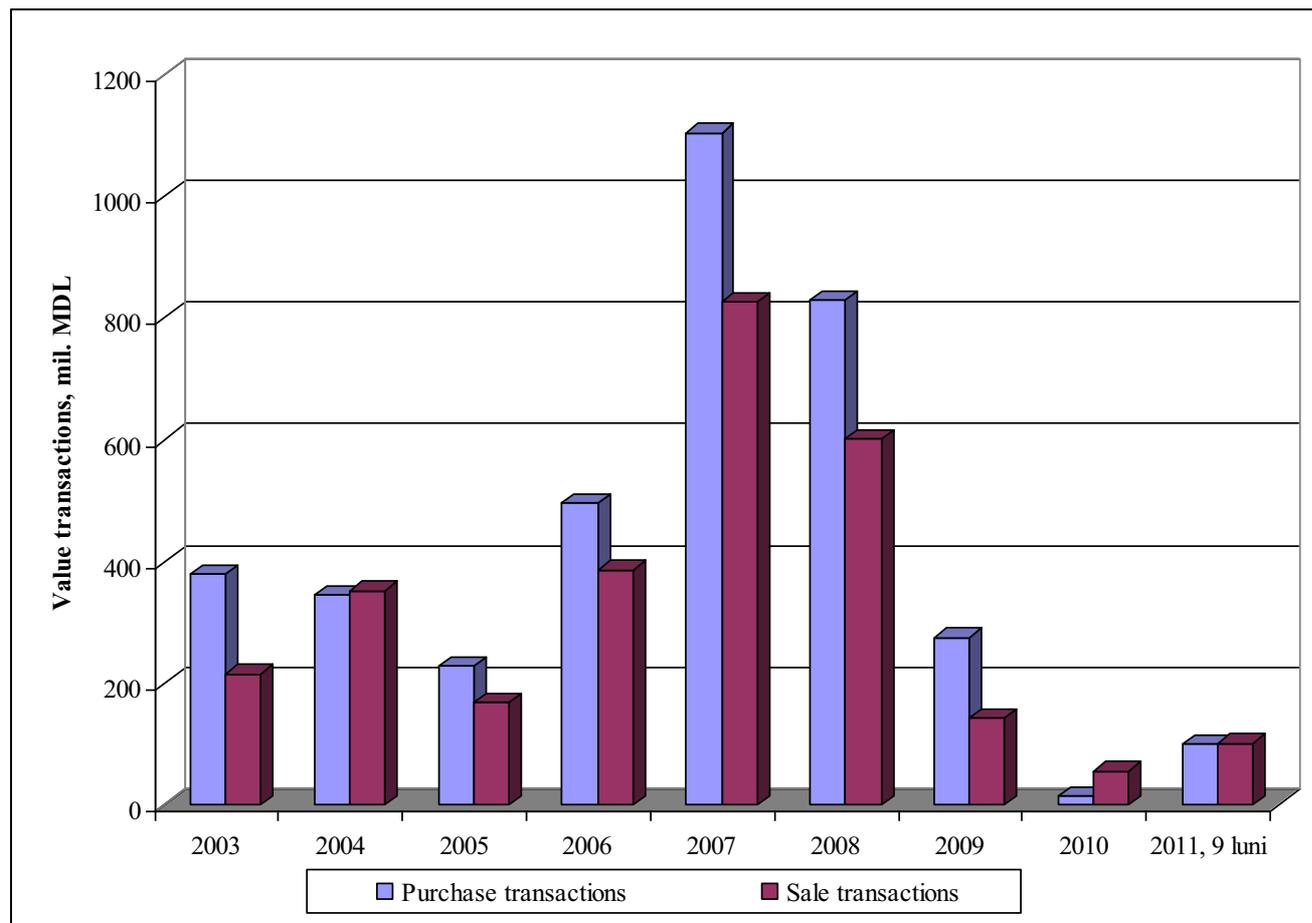


Fig. nr. 2. Dynamics of purchase and sale transactions recorded on the secondary market of RM with participation of foreign investors in the period 2003-9 months, 2011.

Source: made by author based on annual reports of NCFM (NSC) for the years 2003-2011.

A greater share, according to data reported by NCFM for 9 months, 2011 is direct transactions "company capital of the company", or participation of foreign investors in equity securities of companies with limited liability - 1173.1 million lei (102 million) or about 30% of all operations with participation of foreign investors on the secondary market. For the period 2008-2010 the value of this indicator had exceeded 110 million. In this way, foreign investors made in terms of direct transfer of property law, but sale and purchase of securities and, in some cases, information hiding about beneficiary "real" titles.

The presence of certain transactions, unique, due to processes such as privatization of estate state higher minimum regulatory capital required of its banking system, foreign investors entering the local market, investment funds reorganization, re-stock companies generates trends controversial, chaotic and irrelevant in the secondary market in RM.

4. Conclusions - The role of the National Commission of Financial Market

Economic disruptions caused by the influence of recent financial crisis and political instability in the past three years led National Securities Commission to study deeply relevant factors of non-banking financial market failure, particularly securities markets, financial instruments that caused the national economy and guarantor the free movement of capital from an economic entity or individual to another. NCFM developed a strategy on financial unbanking market development in the medium term - 2011-2014, also participating in the development strategy of the country by

2020. Although NCFM aims the reorganization of status holders of securities through a single registrar, forming a central depository, the development of scholarship, creating a system of electronic trading in securities outside the Stock Exchange, itself the status of state regulatory body, supervision and control involving non-bank financial market in the principles of operation, financial market implications, functions and role in determining the policies of development and interaction with other state bodies charged with similar functions in other areas.

Analysis of the practices of countries where financial market mega shows a full control of all financial market segments: securities markets, banking, insurance and reinsurance market, collective investment sector, microfinance, etc. In RM NCFM, as mega does not control the banking system, a fundamental component of the financial market. At present it is necessary to review the principles of interaction between the NCFM and NBM when developing comprehensive policies integrated financial market, comprising both the banking system, as well as non-banking financial market.

Therefore, RM securities market at present is an underdeveloped market, both in terms of infrastructure, as well as the presence of various types of financial instruments, characterized by contradictory trends.

In conclusion, we consider that the situation in the secondary market securities, in particular, and the financial market as a whole could be channeled in a positive trend, if state policies and strategies should provide for concrete measures:

- *political stability, economic and legislative;*
- *review of state tax policy, in order to reduce tax burden and facilitate the work of economic entities;*
- *linking financial market development policies between all components of this market;*
- *review the principles of registration of joint stock companies on stock exchanges, the issuer chooses the category currently quotation - non-listing or listing;*
- *public education viewing on the related opportunities of the market capitalization of equity securities own or obtain additional sources of funding.*

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