OVERVIEW OF THE ROMANIAN CORPORATE BONDS' MARKET BETWEEN 1997-2013

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Abstract

This paper contains an analysis of the corporate bonds' market in Romania between 1997 and 2013 by using data contained in the 27 public offerings of corporate bonds made by national or international companies. Among the features of bond loans, that were used in this research, are: the nominal value of a bond, the loan type and interest rate, issuers and their economic sectors, maturity, type of bonds, state of trading, different conditions imposed to investors etc. At the end of the work paper were highlighted funding costs and the risks that it incurs.

Key words: *Capital market, corporate bonds, corporate bonds' market, corporate bonds' issue*

Classification JEL: *G32*

1.Introduction

The corporate bonds' market is just one sector of the wider capital market. As well as sovereign and supranational borrowers, a range of participants in the economy, from SMEs to multinational conglomerates and financial institutions, compete to borrow investors' funds to use them. For the corporate sector, bonds are one component in the mix of funding methods which also includes equity capital and retained earnings, bank loans, syndicated loans, and other forms of borrowing. [8] Corporate bonds' markets have become an increasingly important source of financing for the private sector in recent years, especially for some emerging market countries. Previously, corporate borrowing had centered on around the banking sector in many countries. However, several banking crises in emerging countries had led to the realization that the sources of corporate borrowing need to be diversified. [9]

In 2013, International Capital Market Association (ICMA) published a paper about why corporate bond markets are so important for economic growth, for investors, for companies, and for governments, around the world; and why it is therefore essential that laws and regulations that affect them avoid any unintended adverse consequences that could inhibit those markets. Everyone has a common interest in corporate bonds' markets to work well for the private and public good. [8] This is important for the authorities and for market participants because if they do not get it right, enterprises and citizens, who are both taxpayers and customers of the market, will suffer.

Bonds are commonly referred to as "unmonitored" lending because of the dispersed pool of bond investors who can not or choose not to "monitor", or influence, the business activities of the bond issuers. In contrast, banks specialize and spend resources to acquire information and monitor borrowers, which typically results in a higher cost of lending. [5] A report made by Centre for Economic Policy Research (2006) offers an in-depth analysis of the European corporate bond market. This report underline that some liquidity problems are specific to the bond market, the market revolves around dealers, whose intermediation services offer some answers to these problems and the euro-denominated bonds segment is much more active and liquid than the sterling-denominated segment. Pipat L. and Li Lian Ong (2005) consider that improvements in market regulation and infrastructure are crucial for the development of local securities markets. [9] The demand and supply of corporate bonds are dependent on factors such as the investor base, both local and foreign, and government policies toward the issuance process and associated costs, as well as the taxation regime.

The literature about corporate bonds consists in a large number of working papers on bonds valuation, liquidity, bonds indices, transparency, eficiency etc. Castillo A. (2004) concentrated on the valuation of different types of corporate bonds, in a scenario characterized by many stochastic variables interacting to determine the value of the assets of a company, and where interest rates are also assumed to follow a stochastic process. The valuation methodology proposed by him is a hybrid of simulation and dynamic programming and corresponds to an extension of the method proposed by Raymar and Zwecher in 1997 to value financial American-type options. [3] Dick-Nielsen J., Feldh P., Lando D. (2012) analyzed liquidity components of corporate bond spreads during 2005–2009 using a new robust illiquidity measure. They concluded that the spread contribution from illiquidity increases dramatically with the onset of the subprime crisis. According to their research, the increase is slow and persistent for investment grade bonds while the effect is stronger but more short-lived for speculative grade bonds. [6] Biais B., Declerck F. (2013) offered a study of the microstructure of the European corporate bond market. They documented how transactions costs in

European corporate bond markets increase with dealers' market power. Their paper presents that effective spreads are tighter and liquidity supply is more competitive for Euro denominated bonds than for Sterling denominated ones. [2] Corporate bond indices are used by investors to achieve managerial objectives, so these indices must be constructed by using methods which account for the stability of these risk factors. [1] A publication of EDHEC-Risk Institute (2013) focuses on how corporate bonds index construction deals with the main risk factor exposures for investors in the corporate bond universe. Corporate bonds' returns are affected by factors such as interest rates, as well as issuer-specific factors, including issuer credit-worthiness. [7] The latter risk factor has prompted an industry of credit rating agencies to emerge, facilitating the standardisation of credit appraisal.

The list of research papers on corporate bonds may continue. But, this paper is not concentrated on such literature review. Our reseach is focused on the level of development of corporate bonds market in Romania and its features. This paper is contains an analysis of the corporate bond market in Romania between 1997 and 2013 by using data contained in the 27 public offerings of corporate bonds made by national or international companies. Funding a company through the capital market is an alternative to bank loans. It is a little known and accessible option for Romanian companies. Most companies appeals to banks for obtaining funds for the activity and respects their regulations. The main advantage of capital market financing by issuing corporate bonds is the fact that in this case the conditions are established by company. Moreover, the listing of bonds brings benefits such as visibility among business partners, free advertising, increasing the confidence of business partners, attracting new partners, changing the structure of financing.

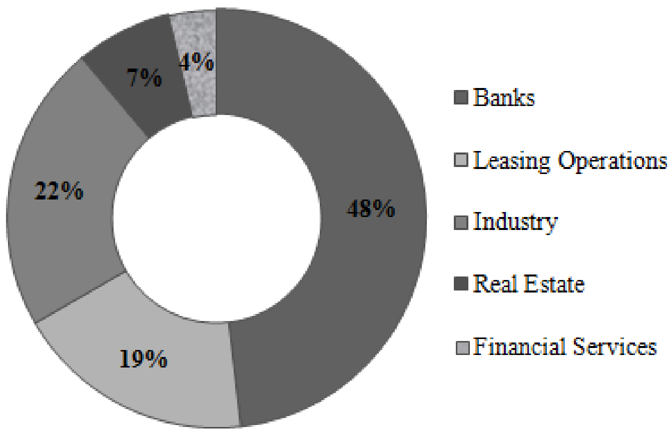
Research methods include comparative analysis, deduction, induction, reasoning, indicators calculation, fundamental analysis etc. Data source consists exclusively in the 27 corporate bonds' prospectus published by the issuers. The novelties contained in this paper are the particularities identified for Romanian companies' behavior in financing by bonds. Since there is a shortage of studies on corporate bonds' market in Romania, we appreciate that this work provides significant information for top managers of large companies or for other interested in this subject.

2. Features of the corporate bonds' market in Romania

Corporate bonds' market in Romania faced an early development during 1997-2013. The funding by issuing debt securities is not among the preferred financing options of Romanian entrepreneurs. Within 17 years, 23 economic entities were active on corporate bonds' market. They have made 27 bonds' public offers recording an overall nominal value of loans exceeding 2.5 billions lei, approximately 575 millions euros. Among these 23 companies issuing bonds on the capital market in Romania the most active are: International Leasing 3 bonds issues, Raiffeisen Bank and Banca Transilvania each with 2 bonds issues, the other issuers have made each one an individual offer.

It may be noted that 13 offers of the 27 corporate bonds issues in Romania were made by issuers operating in the banking sector (BRD, BCC, BT, Raiffeisen Bank, BCR, ProCredit Bank, EIB, EBRD, IBRD, Unicredit Tiriac Bank, Finance Bank Romania), 6 offers were made by industrial companies (Siderca Calarasi, Avicola, GDF Suez Energy Romania, Hexol Lubricants, Glass Lucsil Transelectrica), 5 offers were made by leasing companies (BCR Leasing, International Leasing, TBI Leasing). Two other offers are added to these, they were made by construction companies (Impact Developer & Contractor, Herastrau Real Estate) and one offer was made by a brokerage company (SSIF Broker Cluj).[13]

Figure No. 1 Economic sectors of corporate bonds' issuers



Source: Data centralised and processed by author from prospectus

50% of the 27 corporate bonds issues finished by trading on Bucharest Stock Exchange. Moreover, these securities are characterized by a lack of liquidity and a small number of transactions (one transaction per month).

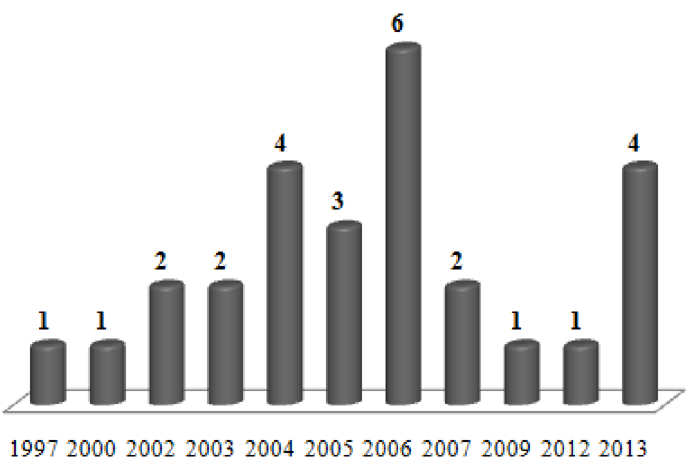
Basically the initial investors have held bonds until maturity without trading them. This is the reason for ignisificant variations of trading prices. 3 corporate bonds issues of the 13 corporate bonds issues, which are traded, were listed on the Bucharest Stock Eexchange International (EBRD, IBRD), six offers were listed on the Bucharest Stock Exchange III (GDF Suez Energy Romania, Transelectrica, UniCredit Tiriac Bank, Raiffeisen Bank, ProCredit Bank, Carpatica Bank) and four bids were classified in the second category on Bucharest Stock Eexchange (International Leasing, Impact Developer & Contractor, BRD, BCR). [13] According to criteria established by the Bucharest Stock Exchange an issue of debt securities must exceed the amount of 200,000 euros to be publicly traded in category III or international, at least 100 persons has to held the bonds for category II , ie at least 1,000 people for category I. [12]

Currently (May, 2014) there are in progress and unmatured six public offerings of corporate bonds (Transilvania Bank, UniCredit Tiriac Bank, Transelectrica, Raiffeisen Bank, EBRD, GDF Suez Energy Romania), four of them were issued last year and have a maximum maturity in 2019. The last bonds issue made by the EIB was completed in May 2014, with a maturity of six years.

Regarding the type of corporate bonds issued in Romania it stands predominant the issues of nominative, unconvertible into shares and dematerialized bonds (74%). EBRD issued in 2009, for the first time in Romania, some bonds in the form of bearer and offset. We can identify six issues of convertible bonds issued primarily by in dustrial companies. The first company that issued convertible bonds in Romania was Siderca Calarasi, an issue made in 1997 with a report of exchange of one bond to four shares. Following the public offering of bonds convertible into shares, International Leasing gave to the holders the right to exercise the option to convert bonds to a conversion rate of 5 shares for each bond held in 2000. [13] In this case it might increase the share capital of International Leasing with the value of converted shares. A third company issuing convertible bonds was glass Lucsil which in 2002 gave to investors the right to convert a bond into 15 shares at the maturity of contract. Other issuers of convertible bonds were Avicola Bucharest (2006), SSIF Broker Cluj (2007) and Transilvania Bank (2005). Conversion methodology for Transilvania Bank is customized by not setting a conversion ratio. Bondholders had the opportunity to exercise the right of conversion to each of the five payments of bond loan. Price per share (conversion price) was equal to the average of the daily maximum and minimum price of Transilvania Bank shares, weighted by daily volume of transactions related to the 90 days in which the stock exchange was open for trading before the conversion date.[13] The number of shares was determined by dividing the equivalent in lei of outstanding bond loan to conversion price. Moreover, Transivania Bank has introduced two conditions at conversion, namely: 1) The minimum value of conversion was 500,000 U.S. $; 2) The total number of shares of a bondholder after conversion can not exceed 5% of the number of outstanding shares at any time.

Analyzing the frequency of corporate bond issuances in Romania it can be noticed that the annual average is a issue by each year of the last 17 analyzed years, a low average. Except for 1998, 1999, 2001, 2008, 2010 and 2011, the analyzed period (1997-2013) books a total of 27 public offerings of corporate bonds, half of them were made between 2004 and 2006. This period is characterized by positive evolution of the Romanian economy and by a rising investment trend of companies. Thus, in 2004 there were four public offerings of corporate bonds, there was still a significant step in 2005 with 3 public offering of corporate bonds, and the peak was achieved in 2006 when it was recorded the highest number of public offerings of corporate bonds, ie 6 offers. The companies dropped out to issues bonds because of financial and economic crisis. The year 2013 is remarkable. In 2013 four Romanian companies decided to finance their core activity by issuing bonds (Transelectrica, Transilvania Bank, UniCredit Tiriac Bank, Raiffeisen Bank).

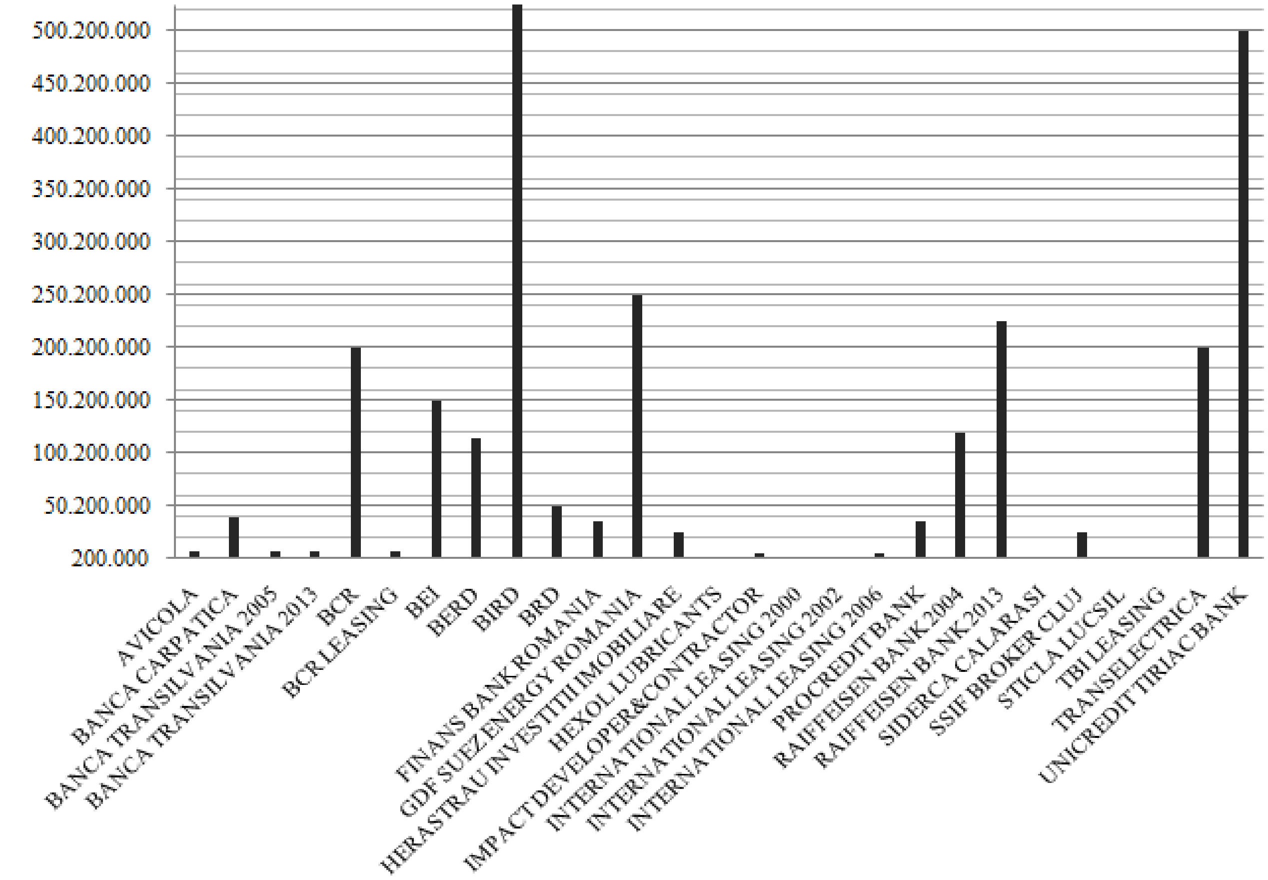
Figure No. 2 Number of issues of corporate bonds by year



Source: Data centralised and processed by author from prospectus

The amount of capital raised by Romanian companies on the bond market during 1997-2013 amounted to over 2.5 billion lei (0.57 billion euros). The largest corporate bond IPO in terms of the nominal value was conducted in 2006 and 2013 by BIRD of Unicredit Tiriac Bank. BIRD issued 525,000 bonds with a nominal value of 1,000 lei per unit, ie a loan of 525 million lei, with a maturity of three years and a fixed interest rate of 6.5%, quarterly payable.

Figure No. 3 The nominal value of public offers of corporate bonds in Romania



Source: Data centralised and processed by author from prospectus

The second largest offer was made public in 2013 by Unicredit Tiriac Bank. It issued 50,000 bonds with a nominal value of 10,000 lei per unit, ie a loan of 500 millions lei, maturity in 2018 and a minimum annual interest rate of 6%. In category of Romanian companies that have obtained over 200,000,000 lei by bonds loans are found BCR Transelectrica, Raiffeisen Bank and GDF Suez Energy Romania, two of these loans were signed in the past two years and are ongoing. The lowest public offerings in terms of bond loan value are those made in the early 2000s by International Leasing and Stricla Lucsil. The International Leasing issued in 2000 88,000 bonds with nominal value of 2.5 lei and a maturity of one year, fully subscribed by investors considering an interest rate of 60%. Sticla Lucsil issued in 2002 74,242 bonds with a value per unit of 3 lei, one year maturity and 5% interest rate.[13]

Regarding the nominal value of corporate bonds issued by companies in Romania overall situation is as follows: seven bonds issuances were made at nominal values between 2 and 3 lei, eight bonds issuances were made at a value of 100 lei per unit, two bonds issuances were made at the nominal value of 500 lei, three bond issuances were made at nominal 1,000 to 2,000 lei, five bonds issuances were made at the nominal value of 10,000 lei, and two bond issues were made in other currencies. Thus, it can be identified three stages in the development of bond loan agreements. Before 2003 the corporate bond issuances had a nominal value of less than 3 lei, during 2003-2007 offers were conducted at nominal values of 100-500 lei, and after 2009 all corporate bonds have a nominal value of 10,000 lei.

Over 85% of corporate bond issues in Romania were in national currency (leu), except for two companies that have issued bonds in lei, but settled according to the exchange rate of other currencies. Corporate bonds' market in Romania has offered to investors two investment opportunities which were issued in U.S. dollars in 2005 and euro 2013, both offers belong to Transilvania Bank. The first bond issue of Transilvania Bank was achieved in 2005 with maturity in 2010 worth 250 millions lei, ie 2,500 bonds with a nominal value of 10,000 lei at a variable interest rate depending on LIBOR6M. A second exit into market of Transilvania Bank was done last year with a loan of 30 million euros, or 50 million bonds with a nominal value of 0.6 euros, an interest rate of EURIBOR6M + 6.25% and maturity in 2020. [13] Usually the nominal valued of corporate bonds coincides with the issue value, but for the bonds issued by

EBRD and EIB the inssue value was higher than the nominal value. An opposite situation it was found for Siderca Calarasi bonds. These were on sale at a value with 18% lower than their nominal value.

The main component of financing cost is interest rate, ie the attraction for investors. 16 issues of corporate bonds of the 27 public offerings offer to investors a fixed interest rate (59 %) and 11 issues offer to investors a variable interest rate (41%). Fixed interest rate varies from 5%, the lowest interest rate offered by the Sticla Lucsil in 2002, to 60%, the highest rate of interest offered by International Leasing in 2000. Among the extreme values of the fixed interest rate for bond issuance can include Siderca Calarasi with an interest rate of 57% in 1997 and International Leasing with an interest rate of 42% in 2002.[13] The average fixed interest rate for corporate bonds in the analyzed period was at around 7%. BCR Leasing and Leasing TBI issued corporate bonds with fixed interest rate applied to euro, 6 % and 6.5%.

Regarding the variable interest rate applied to local currency, it is observed the issuers' preference for interest calculation based on the arithmetic mean of ROBID and ROBOR at 6 months and an added margin ranging from 0% - 4% depending on the issuer. Exceptions are BRD bonds from 2004 and International Leasing from 2006, which calculated the interest depending on ROBOR6M fluctuations and a own marginFirst year interest rate calculated for 7 corporate bonds with variable interest ranges between 9.61% for Carpatica Bank in 2006 and 21.28% in case of BRD in 2004, with an average of 14, 47%, significantly above fixed interest rate offered by other issuers. Banca Transilvania in 2013 and International Leasing in 2006 payed a variable interest rate in euro based on 6-month EURIBOR and a margin of 6.25% in the first case, ie 7.5% for the second issue. [13]

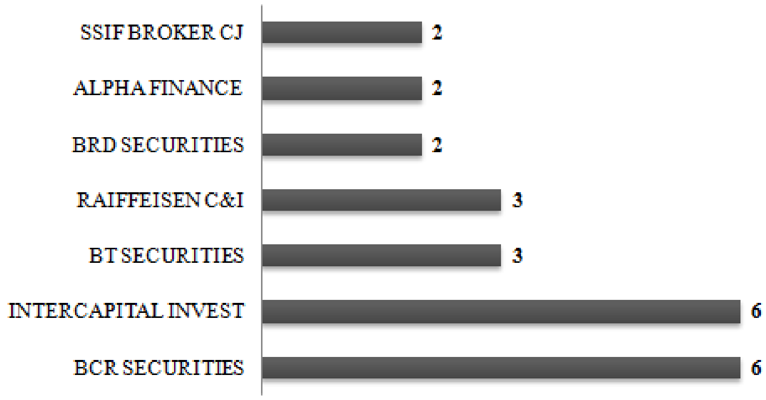
Another particular aspect regard Transilvania Bank bonds issue from 2005 and Impact Developer & Contractor bonds issue from 2003. The both companies have rewarded investors with variable interest rates calculated in U.S. dollars according to the 6-month LIBOR plus an own margin, fixed or adjustable, so the intrest rate for the first year was 6.79% in U.S. $ for Transilvania Bank and 5.93% in U.S. $ for Impact Developer & Contractor. A special case is the offer of Transelectrica in 2013 that although it does not present a method of calculation of variable interest for investors, the issuer guarantees an annual fixed interest rate ranged between 5.4% and 6.4%. A similar policy used UniCredit Tiriac Bank in 2013 when they guaranteed to investors a minimum fixed interest of 6%. Quarterly coupon payments were made in case of 22 corporate bonds offers, respectively yearly in case of 5 corporate bonds offers (Glass Lucsil, Raiffeisen Bank, EIB, EBRD, GDF Suez Energy Romania).

Another important component of bonds issue is represented by guarantees oferred to investors in corporate bonds. In the period 1997-2013, in Romania, 67% of corporate bond programs (18 public offerings) did not present any kind of guarantee, a percentage of 33% of corporate bonds programs (9 public offerings) were guaranteed by the issuer (Impact Developer & Contractor, Herastrau Real Estate, International Leasing, Hexol Lubricants, Siderca Calarasi, BCR Leasing Leasing TBI). Guarantees consist in insurance policies signed at BCR Insurance, Certasig, Alpha Bank, Grups AS or the issuer's assets for Siderca Calarasi.

Destination of the amounts obtained on the bond market was in most of the cases to finance current activity or for credits or for concluding leases or financing investment activity for companies working in the industry (eg Siderca, Sticla Lucsil, Avicola, Impact Developer & Contractor etc.).

To achieve a public offer of corporate bonds the issuers contact a financial intermediary that helps them to fulfill the necessary documents. The mediation methods used by investment banks are the best execution method and the method of subscription. Intermediaries prefer the best execution method because the risk of failure is on the responsibility of issuer, the intermediary does not guarantee that will sell all corporate bonds. For Transelectrica 2013, the investment bank (BCR Securities) subscribed and fully guaranteed the issuance of corporate bonds, while in the case of GDF Suez Energy Romania and Finans Bank, the investment bank subscribed and guaranteed only 50% of corporate bonds' offer.

Figure No. 4 The most active financial intermediaries for corporate bonds in Romania



Source: Data centralised and processed by author from prospectus

Another technique used to reduce the risk assumed by the investment bank is to create a syndicate. Thus, our analysis reveals that 20 public offers were made via a single financial intermediary, instead of 7 public offerings that appealed to a syndicate of financial intermediaries. The average number of members is two (eg, International Leasing, Bank Carpathian Raiffeisen Bank, Finans Bank, etc.), except for Siderca Calarasi where the sysndicate consists of 15 members and it was handled by Sita Finance.

Among the most active financial intermediaries in corporative bonds' offerings are included BCR Securities and Intercapital Invest, each one with 6 active corporate bonds issuances. BT Securities, Raiffeisen Capital & Investment, Alpha Finance, SSIF Broker Cluj also counts among intermediaries of public offerings of corporate bonds.

If we look at the period of maturity it can be found that bond loans are characterized by medium periods of development, the maturity of 3 years is uppermost in case of 12 issues of corporate bonds. These are followed by a bonds' maturity of two years and five years, each with four offers in the analyzed period. In case of Sticla Lucsil issuance it can be found the shortest maturity of bond loans from Romania, ie one year. At the other extreme it is positioned EBRD 2009 with the longest maturity of 10 years. For EIB in 2007 and Transilvania Bank in 2013 the maturity was 7 years.

The subscription period is another factor contributing to the success or failure of corporate bonds issues. Determining the number of days in which investors can subscribe the bonds depends on the politicy implemented by issuer and intermediary. Usually it is established through a number of working days, or by a number of calendar days exactly specified in prospectus. The subscription period can vary between the minimum of 5 working days and a maximum of 15 working days. For SSIF Broker Cluj subscription period in 2009 was 30 calendar days or 90 calendar days for Siderca Calarasi and Avicola, the longest period of subscrision. A particular case is given by the bid of Transilvania Bank's bonds in 2013. This was divided into two subscription offers with two different periods: the right to subcribe within 30 working days (offered to all shareholders of the bank); primary offer with 10 working days (offer addressed to a major investor and other investors if the lead investor does not subscribe all corporate bonds). [13]

Less than half of prospectuses contain precise clauses regarding the successful closing of an offer. The condition that the minimum number of investors to be 100 people is predominant, and the total amount subscribed has to be at least 100,000 euros (eg Hexol Lubricants, Raiffeisen Bank, International Leasing, Leasing, BCR, BRD). Condition of succesful closing can be specified as a minimum value (ie minimum 200 millions lei for the issue of GDF Suez Energy Romania, at least 20 million euros for Transilvania Bank 2013) or as a percentage (eg at least 90% of the bonds issued for BCR , 70% for SSIF Broker Cluj and 25% for Avicola). [13] The possibility of increasing the number of corporate bonds issued in the event of oversubscription customizes a prospectus. Thus, some issuers reserve the right to increase the amount of bonds offered for sale with 15% (eg. ProCredit Bank, Raiffeisen Bank, BRD etc.) or by a certain number of additional bonds (eg maximum 70,000 bonds for Unicredit Tiriac Bank, maximum 300,000 bonds for BCR etc.). For example, corporate bonds offers of Carpatica Bank and Lubricants Hexol have been undersubscribed, public offerings of BCR , Raiffeisen Bank, Finans Bank, EIB and EBRD have been oversubscribed, while the International Leasing, Impact, BCR, TBI Leasing, BRD have been fully subscribed according to date centralized from Bucharest Stock Exchange website. [12]

A number of issuers set condition on a minimum purchase of corporate bonds either as number or value. For example, Raiffeisen has conditioned the purchase of it bonds to at least 500,000 lei in 2013, BCR at least 10 bonds in 2006, TBI Leasing at least 40 bonds in 2003 and SSIF Broker Cluj at least 1,000 bond in 2007 etc. Prospectuses are differentiated by political division of corporate bonds offer by installments and types of investors. For example, BCR bonds issue has benn divided in: 10% of the bonds represent small investor tranche (1-2,000 subscribed bonds), and 90% represent large investors tranche (over 2,000 subscribed bonds). [13] The percentages of the number of bonds between installments may vary: 5% - 95%, 20% - 80%, 30% - 70% or any other combination.

3. The costs of corporate bonds' issuance

There is an essential restriction in the process of getting a loan: the cost of loan. Costs of funding by issuing corporate bonds differ according to the intermediate of the offer, the issuer and the value of the bond loan. First, there is a cost of intermediation that, in most cases, conteins a flat fee, expressed in lei or in other currency, and a variable fee, as a percentage, applied to the amount of issuance or subscription value. For example, ProCredit Bank's cost was 25,000 lei and 0.6% of the subscription amount. For Hexol Lubcricants it was 2,800 euro and Impact Developer & Contractor payed $7,000 plus 2.2% of the subscribed value of investors. Herastrau Real Estate cost was 1% of the subscription amount.[13]

Then there is a distribution fee that is expressed as a percentage applied upon receipt of money from investors or as an amount established for each corporate bond. For example, International Leasing cost of distribtion was 0.0375 lei / bond for one offer of corporate bonds and 0.75% of the nominal value of another corporate bonds offer.[14]

Other costs relate to offer's authorization fee of the ASF (Authority of Financial Supervisory), advertising expenditure according to capital market law, the costs of multiplying the public offer prospectus. Bucharest Stock Exchange expenses include processing fees, trading fee and the fee for maintaining the bonds on stock exchange. Processing fee is a fee charged by the Bucharest Stock Exchange for the analysis of documentation for admission to trading and promotion to other category and it is 1,200 lei. [4] The price of admission to trading is equal to the rate of maintenance to trade corporate bonds and ranges from 5500-10500 lei depending on the principal amount of bonds for categories I and III, between 1800-3750 lei depending on the principal amount of bonds for category II and international values (except VAT). Promotion fee applies to corporate bonds in category II and varies between 750-1500 lei. [4]

To this is added the cost of interest due and payable by the issuing companies. The basis for a management decision to issue bonds is the low cost of variable interest rate and shorter maturities than those on which commercial banks provide loans. From the point of view of the investors the main competitor of corporate bonds are government bonds and municipal bonds. The main feature that makes corporate bonds attractive to investors is the fixed interest which they provide in most cases and its value, which is higher than for municipal bonds and government bonds.

Although they are listed, because of small amounts and a very limited base of investors, there are needed months of waiting to see a transaction on Romanian secondary market. Secondary market price is another factor that has a negative impact on liquidity. Illiquidity makes to be difficult to establish a correct price on the secondary market explained by retention of investors to participate in the transaction.

A common practice of corporate bond issuers is to place some costs in the responsibility of investors incurring bank charges arising from buying bonds and other fees. These can be in a percentage of 0.048% of the nominal value of the principal in case of issuance of GDF Suez Energy Romania, 0.2% of the subscription amount for SSIF Broker Cluj issue or 0.041% of the nominal value for Unicredit Tiriac Bank.[13]

4. Financing by bank credits versus financing by corporate bonds

Companies' choice between bank and bond debt financing is typically influenced by the company's size, the state of market development, and the availability and relative costs of different forms of finance. [8]

One of the main advantages of the issuance of corporate bonds is that the issuer faces with transparent costs, they are known at the beginning of loan. [11] Coupon payment (interest) is annually or quarterly determined. There are no conditions or other restrictions. The issuer's obligation is only to pay interest and return the principal when the bond loan reached maturity. The issuer may acces a large amount of money on long term. The bonds are attractive if the interest rate is higher than the one payed for banks deposits, investors will be interested to place their money in bonds. Trading the corporate bonds through capital market allows the investors to sell them before maturity. Some corporate bonds are convertible into shares at the time they reach maturity. Bondholders will become shareholders of the company. Corporate bonds can be used as an active or preventive tool for protection against a hostile takeover as well. [10]

The main disadvantage is the issuers' need to have a qualification certifying low-risk default. They are provided by the rating agencies, but to get them means an increased cost of corporate bonds offering. Companies that are insufficiently known to investors and which can not issue guaranteed bonds will have difficulties attracting the necessary capital. Although the bond borrowing costs are more stable, they are less flexible. An issuing company can not change the terms of issue, as in the case of bank credit. The costs to initiate a corporate bond issue, which involves organizing road-shows and hiring a financial advisor, may be higher than those of a long-term loan. Like any financial tool, corporate bonds are exposed to a number of risks: country risk, currency risk, interest rate risk, price risk.

In case of obtaining a bank loan, this is a financing operation faster than corporate bonds issue. In general, companies get bonds funding within 4-6 weeks. Credit market is accessible to almost all companies, regardless of size. A large company may negotiate or even launch auctions among banks to obtain an advantageous loan. So, a company can get lower interest rates, longer maturities or very flexible payments. Financing can be done through the banks for revolving credit facility whereby companies borrow how much they want, when they want and they repay the financing when they can. Long-term bank loans are flexible, can be restructured and, where appropriate, refinanced.

The main disadvantage of long-term lending is that banks do not practice fixed interest rate on long term. Therefore, at some point there is the risk that the interest rate will rise. There are no more bank loans offered to companies without collateral. The most bank loans are accompanied by a number of conditions that the borrower must meet throughout the funding. [11] If they are not met, the bank may declare the loan on due. Bank loans in a foreign currency are followed by currency risk.

In investor's perspective disadvantages of an investment in fixed income instruments on domestic capital market are related to fluctuations of interest rates and a reduced liquidity in certain periods. The major advantage of the investment in corporate bonds is capital preservation and receiving fixed interest rates in times of economic downturn, when stocks are more risky.

5. Conclusions

On the corporate bonds' market in Romania were active 23 economic entities which have made 27 public bond issue offers recording an overall nominal value of loans exceeding 2.5 billion lei. Of these, 13 offers were made by issuers operating in the banking sector. There are predominant denominated, nominal, unconvertible into shares and dematerialized corporate bonds. In 2006 was recorded the highest number of public offerings of corporate bonds, namely 6 offers.

The largest IPO in terms of the nominal value were conducted in 2006 by IBRD and in 2013 by Unicredit Tiriac Bank. Over 85% of corporate bond oferrings are made in local currency and 16 offerrigs present a fixed interest rate. In Romania 67% of corporate bonds issuances (18 public offerings) had no warranty for investors. Among the most active financial intermediaries it can be included BCR Securities and Intercapital Invest, each with 6 corporate bonds issues. Another feature is the predominancy of a maturity of three years for 12 issues of corporate bonds.

Capital market financing is an effective and flexible option for dynamic companies. We believe that the corporate bond segment crosses in the present a process of qualitative and quantitative growth. The positive signal is given to by the involvement of large commercial banks on the capital market as issuers. These movements cause a hope that in a few years we will be able to talk about issues more numerous and more diverse in Romania.

7. Acknowledgement

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