THE ROAD OF ROMANIA FROM FRONTIER TOWARDS EMERGING CAPITAL MARKET STATUS

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Abstract

In the present study I first present the classification system of states by international financial institutions on economic and financial criteria, then focusing on the classification made by Morgan Stanley Capital International. According to it the capital market in Romania is currently a frontier one, the Financial Surveillance Authority pursuing the reclassification as an emerging capital market by August 2016. The findings of the study indicate this term as unrealistic, for several reasons. Thus, currently on the Romanian stock market there are only two entities out of 3 minimum required, respectively S.N.G.N Romgaz and Fondul Proprietatea, which fully meet the size and liquidity requirements imposed by MSCI in order to be reclassified as an emerging capital market. Also it is mandatory making significant progress regarding the effectiveness of the operational framework, progress made to some extent through Project S.T.E.A.M. (Set of actions Towards Establishing and Acknowledgment of the emerging Market status). On this project, after analyzing the degree of completion of the proposed measures in order to reach the primary and secondary objectives, whose deadlines have expired, according to the schedule provided, we found that only 69% of them were fulfilled. Given these considerations I can state that Romania could be reclassified as an emerging capital market at the earliest starting with 2017.

Keywords: frontier capital market, emerging capital market, market accessibility, size and liquidity requirements, Project S.T.E.A.M., effectiveness of the operational framework

JEL Classification: G14,G28

1. Introduction

The current economic reality shows with certainty that more developed countries also have more efficient financial systems, which is also true regarding capital markets. In fact, studies show that there is an increasingly pronounced tendency for financial systems to focus more on capital markets as income levels increase [4].

Also, the development of local capital markets as a way to increase the stability of financial systems in developing countries became necessary as a result of the 1997 East Asian crisis (Greenspan, 1999; Herring and Chatusripitak, 2000; Batten and Kim, 2001).

Studies conducted to analyze the development state of capital markets in developing countries as well as the influential factors of this development are several. Thus, it was found that although Latin American capital markets have grown substantially since 1990, they remain underdeveloped compared to East Asian markets and those of industrialized countries [2].

In a recent study that included, among other European developing countries, also Romania [6], it is concluded that, in many countries, both the equities market liquidity and the debt securities market liquidity remains at a decreased level and the number of large enterprises tends to remain too low to cause the issuance of such securities to become effective in terms of costs.

Also, it was proven that in countries that have undertaken reforms of the capital market infrastructure, financial liberalization, pension system or reforms of institutional nature, was subsequently registered a development of the domestic capital market. Thus, the market capitalization, traded value and the accumulated capital on the domestic market, all increase as a percentage of GDP, due to the reforms introduced [3].

According to the classification made by MSCI (1) the stock market in Romania is a frontier one, which is why we intend to analyze the degree to which our country could be reclassified as emerging market in terms of the criteria that must be met in order to achieve this goal.

The reclassification of Romania as emerging market by MSCI is an essential objective for the domestic capital market institutions headed by the Financial Surveillance Authority, which, in August 2014, approved Project S.T.E.A.M. (Set of actions Towards Establishing and Acknowledgment of the emerging Market status). This project is a set of strategic measures in order for the Romanian capital market to be reclassified as an emerging market, goal to be attained in maximum two years after the launching of the project.
2. The classification of countries made by international financial institutions on economic and financial criteria

A) The World Bank Classification

Given the magnitude of the impact of financial globalization on the world economy system, impact which has gradually increased in intensity over the last century, the classification of states based on economic and financial criteria by major public and private international financial institutions appears as a very useful tool for investors. Thus, for the fiscal year 2015 The World Bank classifies the economies of the 188 member countries according to gross national income (GNI) per capita calculated for 2013, as follows:

<table>
<thead>
<tr>
<th>Types of economies</th>
<th>Gross National Income (GNI)/capita</th>
<th>European countries included</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economies with low income</td>
<td>&lt;1.045$</td>
<td>-</td>
</tr>
<tr>
<td>Economies with low to medium income</td>
<td>1.045 - 4.125$</td>
<td>Kosovo, Moldova, Ukraine</td>
</tr>
<tr>
<td>Economies with medium to high income</td>
<td>4.126 - 12.746$</td>
<td>Albania, Belarus, Bosnia-Hertegovina, Bulgaria, Macedonia, Ungaria, Romania, Serbia</td>
</tr>
<tr>
<td>Economies with high income</td>
<td>&gt;12.746$</td>
<td>All others</td>
</tr>
</tbody>
</table>

Source: Author processing according to the data of the World Bank available online at [http://data.worldbank.org/about/country-and-lending-groups#IBRD](http://data.worldbank.org/about/country-and-lending-groups#IBRD)

The World Bank calculates gross national income per capita in US dollars using the Atlas conversion factor (2) instead of simple exchange rates, aiming to diminish the impact of exchange rate fluctuations in national income comparisons between countries.

A look at the composition of each category reveals that Romania is placed in medium to high-income economies, with some of the central-eastern European countries. It is also noticed that the only European countries put into a lower category than that of our country are Kosovo, Moldova and Ukraine (none member of the EU), regarded as low to medium income economies, given that in the low income economies group is not present any European country.

B) The FTSE Group Classification

Accession to the European Union in 2007 (along with Bulgaria) has increased the visibility of the domestic stock market, the process being part of the expansion policy led by the EU, policy initiated in May 2004 (through the accession of 10 countries: Cyprus, Czech Republic, Estonia Lithuania, Latvia, Malta, Poland, Hungary, Slovakia and Slovenia) and continued through the recent accession of Croatia, on July 1, 2013.

Thus, FTSE Group (3), a world leader in the introduction of new stock indices classifies markets into 4 categories: frontier, secondary emerging, advanced emerging and developed, the new EU member states being placed in categories according to the following table.

<table>
<thead>
<tr>
<th>Market</th>
<th>2004 onward EU member states</th>
</tr>
</thead>
<tbody>
<tr>
<td>frontier</td>
<td>Bulgaria, Cyprus, Croatia, Estonia, Lithuania, Malta, Romania, Slovakia, Slovenia</td>
</tr>
<tr>
<td>secondary emerging</td>
<td>-</td>
</tr>
<tr>
<td>advanced emerging</td>
<td>Czech Republic, Hungary, Poland</td>
</tr>
<tr>
<td>developed</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Author processing according to the FTSE annual review report of countries classification available from september 2014, p.3

Also, according to the latest FTSE annual review report of countries classification (September 2014), Latvia is included on monitoring regarding the possibility to be considered a frontier market while Poland remains under monitoring for reclassification as developed market, the potential changes following the be operated starting in September 2015.

Classification of the Czech Republic and Hungary in advanced emerging markets category is consistent with the findings of recent studies [7] which show a high level of integration of their financial markets with the euro area aggregated market, integration which is directly influenced by the development of their financial sector.
The company MSCI Inc., specialized in providing financial decision support tools since 1969, performs the classification of markets in the categories "developed", "emerging" and "frontier" with the purpose of building and updating three key indices: MSCI World Developed, MSCI Emerging Markets and MSCI Frontier Markets. The structure of the three types of markets is presented geographically (Table 3), worth mentioning being the fact that some of the mentioned countries’ indices (those marked with *) are not taken into account in determining the MSCI indices on the three markets categories.

The classification of a capital market as frontier, emerging or developed significantly affects fund flows entering or leaving the country in question, bearing the possibility for a state to be either promoted to the next level or demoted, if it does no longer meet the specific criteria of affiliation.

<table>
<thead>
<tr>
<th>Market type</th>
<th>Geographic area</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed stock markets</td>
<td>America</td>
<td>Canada, United States of America</td>
</tr>
<tr>
<td>Europe and Middle East</td>
<td>Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom</td>
<td></td>
</tr>
<tr>
<td>Pacific</td>
<td>Australia, Hong Kong, Japan, New Zealand, Singapore</td>
<td></td>
</tr>
<tr>
<td>Emerging stock markets</td>
<td>America</td>
<td>Brazil, Chile, Columbia, Mexic, Peru</td>
</tr>
<tr>
<td>Europe, Middle East and Africa</td>
<td>Czech Republic, Egypt, Hungary, Marocco, Poland, Russia, South Africa, Turkey</td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>China, India, Indonezia, Korea, Malaexia, Philippines, Taiwn, Thailnd</td>
<td></td>
</tr>
<tr>
<td>Frontier stock markets</td>
<td>America</td>
<td>Argentina, Jamaika, Trinidat&amp; Tobago</td>
</tr>
<tr>
<td>Europe &amp; CIS (4)</td>
<td>Bosnia Hertegovina, Bulgaria, Croatia, Estonia, Lithuania, Kazakhstan, Romania, Serbia, Slovenia, Ukraine</td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>Botswana, Ghana, Kenya, Mauritius, Nigeria, Zimbabwe</td>
<td></td>
</tr>
<tr>
<td>Middle East</td>
<td>Bahrain, Jordan, Kuwait, Liban, Oman, Qatar, Saudi Arabia, United Arab Emirates, Palestina</td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>Bangladesh, Pakistan, Sri Lanka, Vietnam</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author processing according to the MSCI data available online at http://www.msci.com/products/indexes/country_and_regional

The best example in this respect is Greece, which in June 2013 became the first developed country to be demoted to the status of emerging market because it no longer met the requirements regarding the securities lending facilities, short selling (5) and portability.

Specialised mass-media expressed widely their agreement on the measure adopted by MSCI: "Most of us would agree that Greece is not a developed market, at the level of The United States, Canada or Western Europe [...]. I agree that Greece be declassified as "developed" but I have a problem with its reclassification as "emerging market" [...]. Greece is a country that does not fit in any category; a country that is, politically and culturally undeveloped and unprepared for an "adult" life but too old, too urbanized and with a future too grim to be emerging "[31].

When undertaking a classification is pursued, the MSCI approach aims the existence of a balance between the economic development of a country, the size and liquidity of its capital market as well as the market accessibility for investors at a global level, the three types of criteria being detailed in the following (Table no. 4).

<table>
<thead>
<tr>
<th>Criteria/Markets</th>
<th>Frontier</th>
<th>Emerging</th>
<th>Developed</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Economic Development</td>
<td>No requirements</td>
<td>No requirements</td>
<td>The country’s Gross National income per capita to be 25% higher than the threshold established by the World Bank for high income economies in 3 consecutive years</td>
</tr>
<tr>
<td>A.1 Economic development sustainability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B Size and liquidity requirements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B.1 Number of companies that meet the following standard criteria:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company size</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; 630 mil.USD</td>
<td>&gt;1260 mil.USD</td>
<td>&gt;2519 mil.USD</td>
<td></td>
</tr>
</tbody>
</table>
According to Table no. 4 we notice that Romania is included by Morgan Stanley Capital International in the category of frontier markets, according to the lowest criteria of economic development, size, liquidity and market accessibility.

Thus, if in terms of the economic development criterion MSCI does not impose access restrictions in the emerging markets category, not the same thing happens in terms of size and liquidity requirements, existing significant differences between the indicators’ thresholds of emerging and frontier markets.

Currently, in the MSCI Frontier Markets index are included five Romanian companies: OMV Petrom, S.N.G.N. Romgaz, BRD-Groupe Societe Generale, Banca Transilvania and Electrica (since November 25th, 2014). In what follows we analyze to what extent these companies, along with another large-scale issuer of Bucharest Stock Exchange, respectively, Fondul Proprietatea, respect the size and liquidity requirements imposed by MSCI for the reclassification of Romania as an emerging capital market.

According to Table no. 5 we notice that the only company whose total and free-float market capitalization in US Dollars does not reach the minimum thresholds imposed by MSCI is Electrica, which is why its ATVR has not been further determined. Moreover, being listed on Bucharest Stock Exchange from July 2014 company Electrica would not be considered by MSCI for a potential reclassification until after a year of trade, respectively, from August 2015. If in terms of the first two criteria five companies would ensure Romania’s access to the emerging markets category, not the same happens in the case of the third criterion, relating to securities liquidity or ATVR.

Thus, we find that the only entities listed on the capital market in Romania which in late February 2015 recorded an ATVR superior to the 15% threshold are Romgaz and Fondul Proprietatea. One hope is represented also by BRD-Groupe Societe Generale, with an ATVR of 13.9%, very close to the minimum threshold. In other words, currently on the Romanian capital market there are only two companies that comply with all the requirements of size and liquidity imposed by MSCI in order to reclassify our country as an emerging capital market, out of the three companies minimum required.

Last but not least, in terms of market accessibility, according to statements submitted by MSCI 3 of the 4 criteria are largely satisfied, namely the openness to foreign holdings, facilitation of capital inflows and outflows and stability of the institutional framework.

Improvements are needed on the effectiveness of the operational framework, through the issuance of new regulations or the review of existing ones, actions undertaken by capital market institutions and primarily by the Financial Surveillance Authority. The measures taken in this sense are submitted to a detailed analysis in the next section.

### Table no. 5 The values of the size and liquidity indicators registered by Romanian companies at 28.02.2015

<table>
<thead>
<tr>
<th>Company</th>
<th>Market capitalization (Dollars)</th>
<th>Free-float capitalization (Dollars)</th>
<th>ATVR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petrom</td>
<td>5,444,175,776</td>
<td>1,633,252,733</td>
<td>5,86</td>
</tr>
<tr>
<td>Romgaz</td>
<td>3,333,932,901</td>
<td>1,000,179,870</td>
<td>24,03</td>
</tr>
<tr>
<td>BRD</td>
<td>1,700,413,269</td>
<td>680,165,308</td>
<td>13,89</td>
</tr>
<tr>
<td>Banca Transilvania</td>
<td>1,418,071,920</td>
<td>1,134,457,536</td>
<td>8,80</td>
</tr>
<tr>
<td>Electrica</td>
<td>1,121,598,304</td>
<td>560,799,152</td>
<td>*</td>
</tr>
<tr>
<td>Fondul Proprietatea</td>
<td>2,679,373,375</td>
<td>2,411,436,037</td>
<td>16,02</td>
</tr>
</tbody>
</table>

Source: Author processing
3. Measures proposed in order for Romania to be reclassified as emerging market and the degree of their accomplishment

In the second half of 2013 it was set up a working group consisting of representatives of the domestic capital market institutions (7), of intermediaries and of investors in order to identify key objectives to be achieved for the reclassification of Romania from frontier to emerging capital market.

A potential reclassification of Romania in a higher category would result in increasing the visibility of our country at a global level as well as an increase in advanced capital flows due to, among, other reasons, attracting new categories of investors who do not have the right to invest on a frontier market.

Thus, there were identified eight existing barriers or obstacles that impede the normal development of the capital market in Romania and to overcome them is proposed a series of solutions that aim, in general, legislative changes.

We consider appropriate classifying these obstacles in barriers that hinder the access of investors and barriers that hinder the access of issuers on the market. Thus, amongst the barriers that hinder the access of issuers on the market the most important obstacles relate to market access and the lack of a dividend payment procedure that is in line with international standards, investors waiting even half a year to collect the amounts due.

On the other hand, the barriers that hinder market access of issuers consist, mainly, of an inflexible, bureaucratic and lengthy regime of public offerings of shares. In this respect, the formalities complexity and long waiting time acts as a brake on increasing the number of companies traded on Bucharest Stock Exchange.

The solutions proposed to overcome the barriers in order to modernize the capital market were not ignored by the authorities, in early October 2014 the prime minister stating that the Government will soon develop an emergency ordinance in order to increase transparency and openness of the capital market. This would increase Romania's chances of being included in the watch list of MSCI for potential reclassification in the emerging markets category, list that will be announced in June 2015.

Efforts in this direction have been made also by the Financial Surveillance Authority (FSA), which in August 2014 approved the project S.T.E.A.M. (Set of actions Towards Establishing and Acknowledgment of the emerging Market status). The project represents a set of strategic measures in order for the Romanian capital market to be reclassified as an emerging market, goal to be attained in maximum two years after launching the project. The measures specified in the project pursue the fulfillment of 7 fundamental objectives, namely:

1. increasing the degree of accessibility and attractiveness of the Romanian capital market;
2. increased efficiency and streamlining of the securities lending operations and short selling transactions;
3. development of local primary and secondary bond market (municipal and corporate);
4. increasing liquidity and attracting new investors;
5. increasing the visibility of Romanian companies listed on the stock market through the possibility of them to be listed also on other markets;
6. clarifying the RASDAQ market status and the regime applicable to companies traded on this market;
7. increasing the degree of implementation of corporate governance principles by the issuers, intermediaries, market operators, depositaries;
8. improving the accounting system of regulated and supervised entities – by aligning to the International Financial Reporting Standards (IFRS);

Each of the 8 main objectives stipulated by project S.T.E.A.M is to be achieved through fulfilling several secondary endpoints, FSA elaborating an extensive number of strategic measures for this purpose. According to project S.T.E.A.M. each of the proposed measures must be fulfilled within a certain timeframe fixed by the Authority, timeframes that range between August 2014 and the second half of 2015. In what follows we undertake an analysis of the degree of fulfillment of the measures proposed for achieving primary and secondary objectives, whose deadlines have expired, as scheduled through the project.

Table no. 6 The S.T.E.A.M. measures on increasing the degree of accessibility and attractiveness of the Romanian capital market with expired deadlines and the degree of their accomplishment

<table>
<thead>
<tr>
<th>Secondary objective</th>
<th>Measure</th>
<th>Degree of accomplishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring an “equal playing field” for all foreign investors through:</td>
<td>1.1 Improvement / provision of access by market operators / central depositories to information on companies listed on the stock market and other relevant information (alerts, corporate news) in English Deadline:December 2014</td>
<td>Partially accomplished</td>
</tr>
<tr>
<td></td>
<td>1.2 Analyzing the appropriateness and implications of introducing mandatory requirements for issuers listed on the regulated market administered by BSE/Sibex to transmit current reports published on the stock exchange website also in English by amending Regulation No.1 / 2006; Deadline:December 2014</td>
<td>Unaccomplished</td>
</tr>
</tbody>
</table>
Secondary objective 2 Separating trading accounts from custody and settlement accounts through:

Measure 2.1 Amending the Code of the Central Depozitory in order to restrict broker's direct access to the financial instruments accounts of custodian agents’ clients; Deadline:August 2014 Accomplished

Measure 2.2 Amending the Code of Bucharest Stock Exchange Deadline:August 2014 Accomplished

Secondary objective 3 Simplifying the procedures for opening an account for foreign investors as well as registering them and the Customer Due Diligence measures by:

Measure 3.1 Amending Regulation no.32/2006 regarding the documentation required from intermediaries to open an account for a client and relating to Customer Due Diligence; Deadline:Ongoing Accomplished

Secondary objective 4 Simplifying compliance requirements for corporate events and proxy voting through:

Measure 4.1 Amending Law no.297/2004 on the capital market Deadline:Ongoing Accomplished

Secondary objective 5 Introducing a centralized system for the payment of dividends to simplify the collecting procedure and to reduce the period in which dividends will be granted through:

Measure 5.1 Amending Regulation no.1/2006 and Regulation no.6/2009 Deadline:Ongoing Unaccomplished

Secondary objective 6 Expanding the possibility of undertaking turnaround transactions for a wider range of financial instruments through:

Measure 6.1 Amending the Code of the Central Depository Deadline: Two weeks since receiving the clarifications/completions requested to the Central Depository Unaccomplished

Source: Author processing according to the data of project S.T.E.A.M. available online at www.asfro.ro/files/prezentari/Proiectul%20STEAM%2013%20august.pdf

Further we detail the reasons of which we consider the objectives proposed by FSA through project S.T.E.A.M. as being accomplished, partially accomplished or unaccomplished.

Thus, we believe that the measure of improving / granting access by market operators / central depositories to information on companies listed on the stock market and other relevant information in English, which had as deadline December 2014 was accomplished only partially for two reasons. Firstly, following recent study on the capital market law, we conclude that the problem approached by the measures in question has been the subject of a single normative act, Regulation No.18 / 22.12.2014 amending Article 10 of Regulation Nr. 2/2006 on regulated markets and alternative trading systems. Even in this case, the legislative amendment is rather vaguely expressed, without specifying clearly the market operator's obligation to provide relevant information in English. Thus, according to Article 1 of Regulation No.18 / 2014 related activities undertaken by the market operator in relation to its main activity are: [...] providing, promoting or facilitating access to services and / or products related to the main and / or secondary activity object for participants of regulated markets / alternative trading systems managed by them and / or their end users. Also, consulting the websites of BSE and the Central Depository, we found that at least in the case of the latter, there are key information for investors (e.g. on dividends) that are not properly translated into English.

In terms of judging the appropriateness and implications of making mandatory for issuers listed on the regulated market administered by BSE/ Sibex to transmit current reports published on the stock market website in English with settlement within the month of December 2014, we can only suppose that FSA has not considered appropriate to introduce such an obligation since Regulation No.1 / 2006 has not undergone any change in this regard by March 2015. For this reason we consider this objective to be unaccomplished.

Further, in order to separate trading accounts from custody and settlement accounts, the objective of the Central Depository Code amendment to restrict broker’s direct access to the financial instruments accounts of custodian agents’ clients was met by Decision nr.1000 / 12.08.2014. To the same purpose also the objective of the Bucharest Stock Exchange Code amendment was fulfilled by Decision 1001 / 12.08.2014.

Then, the objective of the amendment of Regulation no.32 / 2006 regarding the documentation required to intermediaries to open an account for a client and relating to customer due diligence, whose fulfillment was already in progress on the starting point of project S.T.E.A.M., was achieved through Regulation no.13 / 2014.

Also, in order to simplify the compliance requirements for corporate events and proxy voting, the objective of amending Law no.297 / 2004 on the capital market which was ongoing in August 2014 was met by OUG 90/2014 into operation since 09.01.2015.
Further, regarding the introduction of a centralized system for the payment of dividends to simplify the collecting procedure and to reduce the period in which dividends will be granted, the objective of the amendment of Regulation No.1 / 2006 and Regulation No.6 / 2009 which were also ongoing in August 2014 was not accomplished. In the lack of new FSA regulations in this respect, in Romania currently operates ever since March 2010 the National Service of dividends distribution by the Central Depository.

Referring to expand the possibility of carrying out turnaround transactions for a wider range of financial instruments, the objective of amending the Central Depository Code in this regard within two weeks of receiving the clarifications/ completions requested to the Central Depository was not accomplished. Thus, the Central Depository Code currently foresees the possibility of performing turnaround transactions for the same small number of financial instruments, respectively shares, rights and fund units.

The second objective, of increased efficiency and streamlining of the securities lending operations and short selling transactions was set to be accomplished by amending the CNVM Regulation no.32 / 2006 and the CNVM Regulation No. 5/2010 including the alignment to EU Regulation no.236 / 2012 on short selling and certain aspects of credit default swaps and European regulations issued in its application. This objective had as term of settlement November 2014 and we believe that it was only partially accomplished because FSA has published only a draft regulation to clarify these issues, while they are still in public consultation.

The third objective, development of local primary and secondary bond market (municipal and corporate) by reducing the fees imposed by FSA on operations with municipal and corporate bonds was set to be accomplished by amending Regulation No.7 / 2006. Since the objective’s deadline was set for August 2014, we believe it was accomplished by coming into operation Regulation No. 10 / 06.16.2014.

Table no.7 The S.T.E.A.M measures on increasing the market liquidity and attracting new investors with expired deadlines and the degree of their accomplishment

<table>
<thead>
<tr>
<th>Measure</th>
<th>Degree of accomplishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creating an educational program in the capital market by creating a section on the FSA website dedicated to educating capital market investors Deadline:November 2014</td>
<td>Accomplished through the webpage <a href="http://edufin.asfromania.ro/">http://edufin.asfromania.ro/</a></td>
</tr>
<tr>
<td>Developing a legal framework for the establishment and operation of investment clubs by developing a FSA draft regulation to regulate: a) The establishment and operation of investment clubs b) The establishment and operation of joint investment accounts Deadline:December 2014</td>
<td>Unaccomplished</td>
</tr>
<tr>
<td>Reducing the quotas/ tariffs charged by the FSA by amending Regulation no.7/2006 Deadline:August 2014</td>
<td>Accomplished through Regulation no.10/16.06.2014</td>
</tr>
</tbody>
</table>

Source: Author processing according to the data of project S.T.E.A.M. available online at www.asfro.ro/files/prezentari/Proiectul%20STEAM%2013%20august.pdf

Also, on the objective of increasing market liquidity and attracting new investors to the capital market in Romania, it should be mentioned that the FSA has undertaken two additional important measures that were not mentioned in project S.T.E.A.M., respectively, reducing the settlement cycle from 3 to 2 working days and regulating the notion of ex-date as the date previous to the record date, with a settlement cycle minus one working day, from which the financial instruments that form the object of corporate bodies decisions are traded without the rights deriving from that decision.

The fifth objective, of increasing the visibility of Romanian companies listed on the stock market by allowing their indirect listing on other capital markets was set to be fulfilled by analyzing the possibility of extending the issuance of certificates of deposit for all issuers listed on the Romanian capital market. In this respect, amending Regulation no.4/2013 which had the term of settlement in October 2014 was accomplished by introducing Regulation No. 15/10.11.2014.

The sixth objective, of clarifying the RASDAQ market status and the regime applicable to companies traded on this market was set to be fulfilled by creating a special legal framework to address exclusively the issue of companies traded on the RASDAQ market. The objective had as term of settlement November 2014 and was accomplished by coming into operation of Law no.151 / 2014 on clarifying the legal status of shares traded on the Rasdaq market or on the unlisted securities market.

Objective no.8, improving the accounting system of regulated and supervised entities - by aligning to the International Financial Reporting Standards (IFRS) through the development of a normative act which stipulates the obligation of applying IFRS by entities which are authorized, regulated and supervised by the FSA - Financial...
4. Conclusions

The stock market represents, along with the banking market, one of the base pillars of any functioning financial system and its development is an ongoing concern at the level of developed countries. This development cannot be achieved in the absence of an increased capital market visibility among investors, visibility which is exponentially influenced by the category in which international bodies place the market in question.

The present study makes an analysis of the degree to which our country could be reclassified from frontier to emerging capital market, in terms of the criteria that must be met in order to achieve this goal.

Thus, we believe that the reclassification of Romania as an emerging capital market can be achieved, but not within the proposed settlement term, i.e. August 2016, but the most optimistic, since 2017. The grounds of this statement are multiple. First, currently on the capital market in Romania there are only two entities (S.N.G.N.Romgaz and Fondul Proprietatea) which wholly fulfill the size and liquidity requirements imposed by MSCI in order to reclassify our country as an emerging capital market, out of the minimum 3 necessary entities.

Secondly, in terms of market accessibility, according to statements provided by MSCI 3 of the 4 criteria are largely satisfied, namely openness to foreign holdings, facilitating capital inflows and outflows and stability of the institutional framework.

Considerable progress is needed on the effectiveness of the operational framework, progress made to some extent by the FSA, which in August 2014 approved the project S.T.E.A.M which represents a set of strategic measures to be undertaken in order for the Romanian capital market to be reclassified as an emerging market.

Thus, analyzing the degree of completion of the proposed measures for fulfilling primary and secondary objectives, whose deadlines have expired as scheduled in the Project, we find that they were fulfilled only in degree of 69%, about a third of which were not implemented in the proposed term of settlement.

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5. Notes

(1) Morgan Stanley Capital International
(2) The Atlas conversion factor for an year represents the average between a country’s exchange rate for that year and the exchange rates of the previous two years, adjusted to the difference between the domestic inflation rate and international inflation
(3) British company fully owned by London Stock Exchange
(4) Community of Independent States
(5) short selling represents a financial instrument that allows an investor to sale shares without effectively owning them; therefore he has to „borrow” them from a third party like a bank or a brokerage house
(6) Annual Traded Value Ratio is the ratio of the value of yearly traded securities, a measure of their average liquidity
6. References


[11] Law no.151/2014 on clarifying the legal status of shares traded on the Rasdaq market or on the unlisted securities market

[12] Regulation no. 06/1995 of the National Commission of Securities (CNVM)


[14] Regulation no.2/2006(CNVM)


[16] Regulation no.6/2009(CNVM)

[17] Regulation no.5 / 2010(CNVM)

[18] Regulation no.4/2013 (ASF)

[19] Regulation no.10/16.06.2014 (ASF)

[20] Regulation no.13/2014(ASF)

[21] Regulation no.15/10.11.2014 (ASF)

[22] Regulation nr.18/22.12.2014 (ASF)

[23] Decision no.1000/12.08.2014 (ASF) of modifying the Code of the Central Depository

[24] Decision no.1001/12.08.2014 (ASF) of modifying the Code of Bucharest Stock Exchange

[25] Decision no.1392/02.10.2014 (ASF)


