SECURITIES

The presentation hereby has in view the legal provisions in force on the 31st of March 2004

Applicable legislation in this field

- Law no.81/1999 – Law of Public Debt, published in the Official Gazette no. 215/17th of May 1999

- Order no. 875/2001 for the approval of the Regulation on operations with government securities issued in dematerialized form, published in the Official Gazette no. 450/8th of August 2001, as further amended and completed

- Law no. 31/1990 on trade companies, republished in the Official Gazette no. 33/29th of January 1998, as further amended and completed

- Order no.1631/1999 on approval of the Methodological Norms of enforcement of the Law of Public Debt no.81/1999, published in the Official Gazette no. 61/11th of February 2000, as further amended and completed

In the present section, we shall analyze the legal provisions regarding:
- government securities;
- shares;
- bonds

I. Government securities

According to the Law no. 81/1999 on public debt, government securities are the documents attesting the public debt in the form of bills, treasury notes or other financial instruments, forming state loans in national currency or foreign currency, on short, medium and long term. These can be issued in materialized or dematerialized form, registered or bearer and can be marketable or unmarketable.

Government securities are issued by the Ministry of Public Finances, both directly and through the mediation of the specialized financial institutions obtaining the capacity of state agent. Government securities are issued on the basis of a yearly, half-yearly, quarterly, monthly anticipatory calendar or any time necessary, established by mutual agreement with the National Bank of Romania and have as their purpose the financing and refinancing of the state's financial obligations.

Government securities maturity

Government securities expressed in national currency can be issued on short, medium and long term.

Short-term government securities are treasury bills (securities issued for periods from one to ten years) and treasury notes, bearing interest or with discount (securities issued by the state for the purpose of attracting the savings in national currency from the population), as well as other instruments that may be created by the issuer according to law.

Medium or long-term government securities are government bonds with a maturity of over one year and maximum 5 years from the issue, bearing interest or with discount issued according to the state loan clauses.

Government bonds are issued by treasury, have maturities from ten to thirty years and bear interests. Unlike treasury bills, issued in order to cover the budgetary deficit, government bonds are loans having a known, concrete and singular destination.

Government securities circulation

Government securities shall be offered for sale; the terms and conditions for issue of a certain series of government securities are presented in the prospectus of issue, approved by order of the minister of public finances and shall comprise, among others: denomination of the government securities that are to be issued; the series of the government securities; the date of issue (date of discounting); modality and date of discounting; interest rate or the price (if appropriate), etc.

The law forbids any concerted agreements or practices of the participants to the government securities market that have as object or could have as effect distortions of the competition on the market, especially those regarding: return and price of the government securities; volume of the government securities offered or requested; structure of the portfolio of government securities of each participant to the market and strategy of administration of the portfolio; involvement in transactions that might constitute unfair competition deeds towards other participant on the market.

Payment of the government securities

The value of government securities is reimbursed /restituted, according to the conditions of issue and the provisions of the law no. 81/1999; on the date of reimbursement, state’s obligations are liquidated.

Investment in government securities issued by the state is considered to be risk free, because their redemption by the issuer is sure.

1. Primary market of government securities

Primary market of government securities represents the ensemble of operations connected to the investment of issues that is sale for the first time of government securities. The purchase of the government securities from the primary market is accomplished through authorized intermediaries of the primary market.

Participants to the primary market of government securities may be banks, financial and credit institutions, authorized to operate on the Romanian territory according to the law and are selected by the National Bank of Romania. National Bank of Romania may accept as participants to the primary market of government securities, besides intermediary of primary market, other natural and legal persons.

The activity of sale of the government securities on the primary market is organized and led by the agent appointed by the Ministry of Public Finances. The sale of government securities is performed through one of the following modalities: a) public subscription
b) auction

2. Secondary market of government securities

Secondary market of government securities represents the ensemble of operations of sale, purchase and other operations with government securities in circulation, free of encumbrances.

Operations on secondary market of government securities shall be performed within the maturity term, but only until the current registration date.

Government securities corresponding to an issue shall be traded on a sole secondary market that is on the market supervised by the National Bank of Romania or the Bucharest Stock Exchange. Through the prospectus of issue, the Ministry of Public Finances shall designate the secondary market on which the respective series of government securities shall be traded.

The participants on the secondary market of the government securities are the intermediaries of the primary market, intermediaries of the secondary market, legal persons and natural persons that may, according to law, perform operations with government securities. Intermediaries of the secondary market of the government securities may be banks and transferable securities companies, authorized to operate on the Romanian territory, according to law.

Transactions on the secondary market of government securities

According to the date of discounting the transactions of the secondary market of government securities may be:

a) today – transactions that have the discounting on the date of the conclusion of the transaction;
b) tomorrow - transactions that have the discounting in the first working day after the date of the conclusion of the transaction;
c) spot – transactions that have the discounting in two working days after the date of the conclusion of the transaction;
d) forward - transactions that have the discounting in another working day after the spot discounting.

Transactions with government securities are performed on the principle "delivery versus payment" as follows:

- the purchase of government securities shall be discounted through the crediting of the account of government securities concurrently with the debiting of the current account of availabilities;
- the sale of government securities shall be discounted through the debiting of the account of government securities concurrently with the crediting of the current account of availabilities.

II. Shares

According to the Law no.31/1990 on trade companies, as republished, the shares are representative titles of the shareholders' contribution, constituting parts from the registered capital, conferring to the owners the capacity of shareholder.

1. Shareholder's rights and obligations

a) <u>Patrimonial rights</u>

Right to dividends is the main shareholder's patrimonial right, in virtue of which he receives a part of the profit. The right to dividends arises in the day when G.M.S. decides their distribution or, as the case may be, on the term established by special laws, but no later than 8 months form the date of the approval of the annual financial situation afferent to the fiscal year concluded. Otherwise, the trade company shall pay a penalty afferent to the period of delay, at the level of the legal interest.

b) Non-patrimonial rights

The right to participate in the general meeting of shareholders belongs to all the shareholders with joint shares. They may participate in the meeting directly of by representatives.

The right to vote belongs to the shareholders with joint shares. Each paid share grants the right to vote in the general meeting. Through constitutive act, the number of votes of a shareholder with many shares may be limited.

The right to information allows to the shareholders to inform on the development of the company's activity. The administrators are obliged to put at the shareholders' disposal the registers of the company and to issue, upon request, copies of those ones.

The shareholders also have certain obligations, mainly – to make the owed payments. If they have failed to perform these obligations on the stipulated term, the company shall invite them to perform it through a collective summons, published twice, after 15 days period, in the Official Gazette and in a newspaper with wide dissemination. If not even after the summons the shareholders execute their obligation, the board of directors shall be able to decide the suing of the shareholders for the outstanding payments or the annulment of the respective registered shares.

III. Bonds – concept

Bonds are credit instruments, on long and medium term, issued by the trade companies or the bodies of the central and local state administration. They give the right to collect an interest and to recover the invested amount at a time on maturity or in portions during their lifetime. Investors in bonds may be natural or legal persons from the country and abroad, holding money capitals. Buying a bond from an issuing institution, the right of using that money for a definite period is assigned to that institution. In exchange the issuer shall give a certificate, undertaking to return the borrowed value plus an interest.

1. Types of bonds on the international bonds market

On the international bonds market, besides classic bonds, new types have emerged:

- *bonds with warrants.* These are classic bonds with right of subscription, negotiable, allowing for shares of the issuing company to be further purchased, at a previously established price;
- *zero coupon bonds* – these do not imply payments of interest to investors, the gain being given in this case by the difference between the price of issue (lower) and the nominal value at which the issuer further redeems the bonds from the holder or by the redemption premium granted by the issuer.
- *participating bonds* – within which the interest rate and the price of reimbursement are established at a minimum level in the moment of issue, but these can be increased according to the financial results obtained by the debtor.
- *bonds convertible in shares* – that give the right to the holder, for within the term established through the contract of issue to express the option of converting the titles in shares. The creditor becomes shareholder in the financed company.
- *indexed bonds.* The issuer assumes the obligation to update the value of these titles according to an index, by mutual agreement with the investor. The indexing is applied on the interest, on the price of reimbursement, on both elements.
- *variable-interest bonds.* The issuer undertakes to modify the interest rate during the life of the bond, in order to insure fructification according to the market conditions. They are usually issued in dollars, the issue of such titles being strong in periods characterized through great interest rates volatility.
- *special bonds with coupon that may be reinvested – OSCAR.* These allow to the holder to choose between receiving a coupon of interest in cash and receiving bonds identical to the initial ones.

1. Intrinsic elements of a bond

1.1 Value of the loan

The value of the loan (nominal or principal value) is the value that the issuer agrees to restitute on the maturity of the bond.

1.2 Interest rate

The bonds are issued with a specified rate of the coupon or a nominal rate, which is determined by the market conditions in the moment of the primary offer of the bond.

There are fixed rate bonds and floating rate bonds.

1.3 Interests payment schedule

During the existence of the bond, the interest is usually paid at 3 months, 6 months or 1 year periods. The payment of the interest afferent to these periods is called coupon.

1.4 Term until the maturity

Usually the bonds have a maturity term longer than 1 year.

1.5 Redemption clause

If the prospectus comprises such a clause, the issuer has the right to redeem the bonds before their maturity and to pay them at a previously established price. This clause is used by the issuers of bonds in order to protect themselves from the payment of a higher interest than it would be advantageous for the money borrowed.

1.6 Yield

There are three main types of yield: a) coupon yield; b) current yield; c) yield until maturity.

2. Bonds trading

The bonds may be traded at the Stock Exchange. When thus traded, they may be purchased and sold between investors, both individuals and corporate. The price of sale or purchase of a bond is expressed as percentage from the nominal value.

In comparison with shares, bonds have a lower risk because they imply a fixed income. Regarding the interest risk, for the bonds issued with a floating interest rate the risk for the issuer is that of the increase of interests on the market that will lead to an increase in the price of the credit. The assessment of the risk of interest is made through a complex of indicators measuring the degree of exposure of these financial instruments to the changes in the interest rate: maturity, sensitivity and duration.

There are major differences between the shares trading and bonds trading, mainly regarding the way of expressing the price. In the case of the bonds, the price is not expressed as absolute value in lei, but as a percentage from the nominal value of the bond.

But the net price of sale of the bonds, which is also the one displayed in the system of trading, is not the price that the buyer is going to pay to the seller. The interest passed from the date of the last interest payment by the issuer (or from the date of the launching of the issue) until the current date adds automatically to the net price.

In practice, in the trades with bonds through Stock Exchange the period of discounting of the trades which is of three working days should be taken into account.