

PD-ABQ-433  
97235

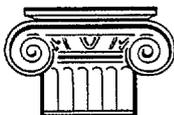
70	85	74.73	85	1523060	-6.78	EDIM	EOILCO - IA (184698)
400	400	400	400	291600	-11.11	EETS	ELECTROCONSTRUCT
1500	1500	1500	1500	58500	0	EFRI	EFORIE - CT (9940547)
7900	7900	7900	7900	3348600	-0.12	ELAS	ELAR - AG (5485900)
11500	11112.99	8000	12568800	-38.91	ELBO	ELECTROCONTACT BU	
190	190	190	223440	0	ELCT	EL-CO (557274)	
70	70	70	52430	0	ELED	ELECTRONICA - BU (1)	
70	70	70	26380	-48.15	ELEL	ELECTROCONSTRUCT	
2500	2500	241585000	0	ELER	ELFROM (3426320)		
300	300	574200	0	ELGS	ELECTROARGES - AG		
300	300	1946400	0	ELJA	ELECTROMONITAJ CA		
70	70	175420	0	ELMA	ELECTROMAGNETICA		
100	100	418800	0	ELNG	ELECTROCONDON (15		
500	500	1027500	0	ELNI	ELECTROTEHNICA - B		
500	500	525000	0	ELNV	EL NAV - GL (1630578)		
301500	301500	0	0	ELPZ	ELECTROTEL (138343)		
406620	406620	0	0	ELPS	ELPRCO (2321835)		
800000	800000	0	0	ELPU	ELECTROPUTER - DJ		
1000	1000	0	0	ELTR	ELECTROMOTOB TIR		
1000	1000	0	0	ELZY	ELECTROPRECIZIA (1)		
0	0	0	0	EMTL	ELECTROMETAL - TM		
0	0	0	0	ESSA	ECHIPAMENTE SI SERV		
0	0	0	0	FACV	FABRICA DE SCULE R		
0	0	0	0	FAET	FARMAVET - BU (256)		
0	0	0	0	FAMD	FARMACEUTICA MED		
0	0	0	0	FAMO	FAMOS - SV (713730)		
0	0	0	0	FAMZ	FAM - GL (1625559)		
0	0	0	0	FASOV	FARMACOM SHASOV		
0	0	0	0	FATSC	FARMACEUTICA ALESC		
0	0	0	0	FAUR	FAUR - BR (2271103)		
0	0	0	0	FABR	FABRICA DE ZAIAR B		
0	0	0	0	FEX	FEX (2614587)		
0	0	0	0	FPII	FPII (1580363)		
0	0	0	0	FPII	FPII (135)		
0	0	0	0	FRESTAU	FRESTAU		
0	0	0	0	F1709	F1709		
0	0	0	0	F1659	F1659		

# ROMANIA:

## Assistance to the National Securities Commission

October 1995 - December 1997

ON BEHALF OF  
The U. S. Agency for International Development



Financial Markets International, Inc.

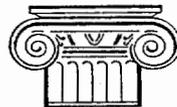
Ar

ROMANIA:

Assistance to the  
National Securities Commission

FINAL REPORT

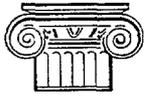
January 1998



Financial Markets International, Inc.  
4800 Montgomery Lane, Suite 100  
Bethesda, MD 20814

301-215-7840; 301-215-7939 fax  
pp000289@mindspring.com

- Bi



## Executive Summary

History tells us that creating effective capital markets in a nation is an evolutionary process. By example, the New York Stock Exchange began trading under a buttonwood tree on Wall Street in 1792, yet a U.S. Securities and Exchange Commission did not exist until 1934, almost a century-and-a-half later, and trading of the Standard & Poor's Index basket of stocks is less than ten years old.

Thus, the Romanian capital markets development story is remarkable. The USAID in the fall of 1995 boldly committed to a full-scale capital markets development program through a far-sighted Memoranda of Understanding between the Governments of Romania and the United States. Four task orders were awarded by USAID to develop the dominant structures and institutions essential for effective securities markets functioning. USAID undertook this initiative to facilitate the privatization of over four thousand state-owned enterprises and a planned distribution of shares to sixteen million Romanians.

USAID made this commitment when there was little or no infrastructure supporting the distribution, quotation, trading, registration, or transfer of shares after the initial distribution. The capital markets environment in Romania was largely inadequate or non-existent. This included a limited understanding of the concept of share ownership; a nascent stock exchange with virtually no share trading experience and a reluctance to permit the newly privatized shares to trade on the exchange; no trading systems; no depositories; no registries, no clearing and settlement or custody functions; virtually no brokerage community; and a brand new Romanian Securities Commission armed mostly with good intentions to effectively regulate and develop capital markets, but with virtually no experience in doing so.

Financial Markets International (FMI) was awarded the task of working closely with the Romanian National Securities Commission (CNVM) to develop the legal and regulatory framework for capital markets by accomplishing the following tasks:

1. Develop the CNVM's organizational, administrative, and regulatory capacity.
2. Improve the legal and regulatory infrastructure including drafting and gaining Parliamentary approval of amendments to the basic laws governing capital markets, and understanding, drafting and implementing securities markets regulations.
3. Assist the Commission in regulating financial intermediaries including

SRO's, investment funds, depositories, and a clearing and settlement process.

4. Implement an active education and training program for the Commission, its staff, and market participants, and the public.

This report outlines the challenges that FMI encountered in meeting these objectives, and highlights the methodology FMI used to meet and exceed all benchmarks of this project. In the briefest summary, FMI is proud to have accomplished the following objectives:

- Secured CNVM approval and implementation of a reorganization plan, including design and installation of a computer system and a securities market information-monitoring system.
- Accomplished extensive domestic and international training of CNVM Commissioners and staff.
- Drafted, submitted, and secured CNVM approval of over 30 securities market regulations and instructions.
- Spearheaded a major legislative drafting project to amend the basic securities market legal framework (Laws 31, 52, and 83 / Ordinance 24). Coordinated comments from other foreign advisors.
- Developed market surveillance and disclosure methodologies and assisted the CNVM in conducting audits, interviews, and books and records inspections.
- Conducted 21 major seminars across Romania for corporate issuers, reaching over 800 representatives of 706 companies.
- Produced and distributed 8 brochures and manuals (distributed in the thousands) on corporate governance and capital markets, and assisted the CNVM in its public education and outreach efforts.
- Testified before Romanian Parliament, supporting confirmation of the CNVM as the sole regulatory body of commodities and securities markets.
- Oversaw growth of Romania's OTC market to 2,000 shares per day between October 1996 and December 1997.
- Proposed soon-to-be-implemented plans for electronic filing and accessing of annual and other reports by issuers and others.

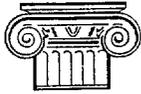
In short, from a bleak and uncertain environment in 1995, USAID can point to a nation that accomplished in two years what has taken many nations' capital markets decades to achieve. FMI is pleased that its work with the CNVM and

capital markets participants, supported by the leadership of USAID in Washington and Romania, facilitated the following results:

- Romania's mass privatization program has privatized approximately 5600 companies and created 16 million new Romanian shareholders.
- Romania has developed an active over-the-counter market, a brokerage community, investment funds, a registry, depository, and clearance and settlement system, and a securities market regulatory commission.
- The RASDAQ securities market has progressed from 6 listed companies and 2 trades per day in October 1996 to 3,800 listed companies and 2,000 trades per day in November 1997.
- RASDAQ now has over 500 actively traded issues.
- The Romanian broker/dealer community developed from 22 members in 1996 to approximately 160 member firms today, with two-thirds of existing firms now qualified to trade directly on RASDAQ.
- Three major self-regulatory organizations (or SROs) have been created: the SNCDD, the depository, clearance and settlement system for the RASDAQ market; the ANSVM, the broker/dealer association; and the UNOPC for the investment fund industry.

FMI is particularly proud that the CNVM is today the leader in regulating and developing the securities industry in Romania. The CNVM is learning to effectively use its power to ensure transparency, integrity, and fairness in the securities markets. This followed from the CNVM implementing the institutional structure recommended and developed collaboratively with FMI that is now serving as a catalyst for other participants in securities markets to operate in such a manner as to gain public confidence and provide Romanians with effective functioning capital markets.

While much remains to be done to ensure that fledgling capital markets enterprises in Romania become mature capital markets institutions, a sound beginning has occurred. This report reviews the sound beginning that USAID and FMI established in Romania.



## Romania: Assistance to the National Securities Commission

### Foreword and Acknowledgments

The Assistance to the National Securities Commission of Romania Project was financed by the United States Agency for International Development. The two-year project (October 1995 to December 1997) was designed to assist the development of the administrative, organizational, and regulatory capacity of the Commission, and to develop the legal and regulatory framework of Romania's capital markets.

Financial Markets International, Inc. (FMI) wishes to acknowledge the dedicated work of its staff and consultants who made this project succeed. Equally, FMI gratefully acknowledges the support and cooperation it received from the Commissioners and staff of the Romanian Securities Commission. Finally, FMI's work was greatly facilitated by the project management skills of Sarah Ackerson, Beverly Loew, and Ray Morton of USAID.

### Respectfully Submitted

Financial Markets International, Inc.

Robert D. Bond, Ph.D., FMI Project Director  
Alan Rosenberg, J.D., FMI Team Leader

#### FMI Expatriate Consultants

David Bardsley	Richard Y. Roberts
Jeffrey Brown	Walter Robertson
Paul Carlson	Michael Rodriguez
Stephen Gollins	James Ryan
William Haseltine	Kevin Salisbury
S. W. Kang	Cameron Smith
Dennis Klejna	Richard Symonds
Jennifer Loi	Steve Ujvarosy
J. Craig Long	J. M. Weinstein
Michael Mulligan	Betsy Wharton
Kevin O'Hara	
Harlan Pomeroy	

#### FMI Romanian Staff

C. Antofie	L. Soponariu
A. Bazavan	L. Soreanu
C. Becic	D. Sorin
E. Bogos	A. Staniciulescu
M. Bogos	A. Strambeanu
A. Cojocaru	C. Tescaru
A. Danescu	E. Vanatoru
D. Davidescu	V. Vasile
G. Doglu	
F. Dragus	
S. Fatu	
D. Fejes	
I. Georgescu	
G. Ionescu	
S. Marinescu	
S. Mihai	
A. Moore	
A. Negriu	
T. Paraschiv	
S. Paris	
L. Pricop	
G. Scripcariu	
B. Sebastian	

#### FMI Home Office

Judith Cion, JD
Nancy Gordillo, JD
Christine Lee
Peter Levine, MA
Robert Schreur, PhD
Charles Seeger, JD

## Contents

Foreword and Acknowledgments  
Executive Summary

I. Introduction	1
II. USAID Objectives	5
III. FMI Accomplishments	6
1. Securities Market Facilitation	11
2. Securities Commission Organization and Development	15
3. Market Surveillance and Enforcement	19
4. Capital Markets Education and Training	25
IV. Lessons Learned	28

### Tables and Illustrations

RASDAQ Market Evolution	4
FMI Project Highlights	7
Table 1: Securities Market Facilitation	10
Table 2: Securities Commission Organization and Development	14
FMI Implements CNVM Recruitment Support Program	17
Table 3: Market Surveillance and Enforcement	18
FMI Testimony Before Parliament	20
Table 4: Capital Markets Education and Training	24
Map: FMI Corporate Issuers Seminars	27

### Appendices

1. FMI Memorandum to CNVM Commissioners
2. CNVM Organizational Chart
3. *What the Securities Issuers Ought to Know*
4. Enforcement Department Investigations Report
5. Commissioners U.S. Training Programs
6. Corporate Governance Training Programs

## **Romania: Assistance to the National Securities Commission**

### **I. Introduction**

In October 1995, the United States Agency for International Development (USAID) undertook a full-scale capital markets development program in Romania, pursuant to a Memorandum of Understanding (MOU) that was executed by the Government of Romania (GOR) and the U.S. through Ambassador Alfred Moses. USAID committed to support the development of Romania's capital markets as an essential element of reform following mass privatization, providing technical assistance, training, and institutional development to new and existing Romanian counterpart institutions and capital markets participants under four Task Orders to assist:

- (1) the Romanian National Securities Commission\* (CNVM);
- (2) Romanian investment funds and the trade association;
- (3) the broker/dealer community, a broker/dealer self-regulatory organization, and the RASDAQ over-the-counter trading system; and
- (4) an independent share registry, a depository, and a clearance and settlement institution.

Financial Markets International, Inc. (FMI) was awarded the task of working closely with the CNVM for developing the legal and regulatory framework for capital markets, as well as serving as the lead contractor to coordinate the efforts of other capital markets contractors. The technical assistance FMI provided to the Securities Commission under this Task Order was intended to accomplish the following objectives:

- (1) Develop the Commission's organizational, administrative, and regulatory capacity at the critical juncture of the opening of the OTC market;
- (2) Improve the legal and regulatory infrastructure, focusing on:
  - (a) understanding and implementing regulations and instructions already adopted; and
  - (b) drafting and gaining Parliamentary approval of amendments to the basic laws governing capital markets;

---

\*The CNVM was created formally on June 21, 1994, when the Parliament approved the Securities and Exchange Law (Law No. 52). The Securities Commission evolved from a developmental project on capital market formation begun in late 1992 by the GOR, Canada, the World Bank and the International Finance Corporation. Initially, a National Agency for Securities was established by ordinance under the jurisdiction of the Ministry of Finance; technical assistance was provided by Canada.

- (3) Assist the Commission in regulating financial intermediaries, including SROs, investment funds, depositories, and the clearance and settlement process; and
- (4) Implement an active training program for the Commission regarding its role, for the Commission staff, market participants, corporations, and the general public.

FMI implemented this organizational development of the CNVM, and the development of the legal and regulatory framework for capital markets from October 15, 1995 to December 14, 1997. The Romanian law called for a securities commission modeled largely after the U.S. Securities and Exchange Commission, operating as an autonomous public body composed of five members including a chairman and a vice chairman appointed by Parliament for a period of five years, with possible reappointments. The Securities Commission includes departments for regulation, market policy, licensing, communications, control and supervision, and administrative services, operating with a staff of about 70.

The overall goal of this USAID project was to assist the GOR in successfully implementing market reform. More specifically, USAID undertook the monumental task of developing a fully functioning securities market to permit the privatization of over 4,000 state-owned enterprises via a planned distribution of shares to 16 million Romanians. Massive distribution of privatization coupons occurred between October 1 and December 31, 1995. Trading in shares was originally scheduled for March, 1996.

At the outset of the project, there was little, or no, infrastructure supporting the distribution, quotation, trading, registration or transfer of shares after the initial distribution. Indeed, the financial markets environment surrounding the project was largely inadequate, including the following deficiencies:

- A limited understanding of the concept of share ownership among citizens, key policy makers, and market practitioners.
- A nascent stock exchange (Bucharest Stock Exchange) with limited share trading experience, as well as a reluctance to permit shares from the newly privatized companies to trade on the Exchange.
- No hardware, software, procedures, or plans for an effective secondary trading system.
- A fledgling and largely inactive brokerage community with little operational experience or understanding of transparency issues.

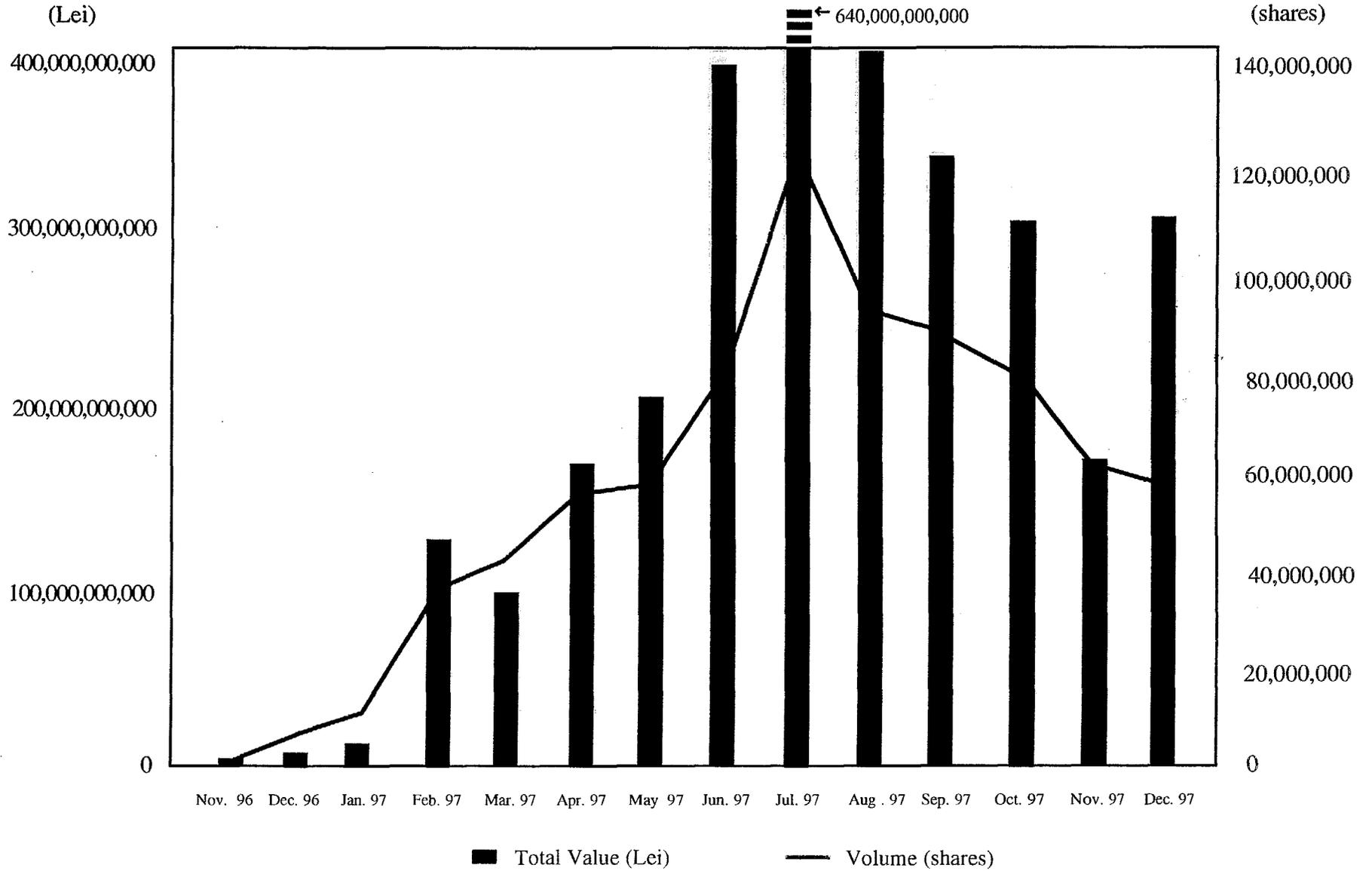
- No depositories or registries to handle the shares or support the trading system.
- No procedures for securities clearing, settlement, or custody functions.
- A new Securities Commission with overall authority to regulate and develop the market, but with limited experience in the legal, regulatory, and enforcement areas necessary to accomplish its objectives.

In short, when FMI began this Task Order, Romania's capital markets were not intact, but rather were being imagined. Consequently, *innovation, flexibility, and coordination* were the watchwords of the project. The four USAID Task Orders faced considerable challenges.

Today, two years later, it is clear that Romania has made impressive strides in achieving its goals in both privatization and capital markets development. FMI is pleased that its work with the CNVM and capital markets participants facilitated the following results:

- Romania's mass privatization program has privatized approximately 5600 companies and created 16 million new Romanian shareholders.
- Romania has developed an active over-the-counter market, a brokerage community, investment funds, a registry, depository, and clearance and settlement system, and a securities market regulatory commission.
- The RASDAQ securities market has progressed from 6 listed companies and 2 trades per day in October 1996 to 3,800 listed companies and 2,000 trades per day in November 1997.
- RASDAQ now has over 500 actively traded issues (See RASDAQ Market Evolution chart).
- The Romanian broker/dealer community developed from 22 members in 1996 to approximately 160 member firms today, with two-thirds of existing firms qualified to trade directly on RASDAQ.
- Three major self-regulatory organizations (or SROs) have been created:
  - the SNCDD, the depository, clearance and settlement system for the RASDAQ market;

# RASDAQ MARKET EVOLUTION



- the ANSVM, the broker/dealer association;
  - and the UNOPC for the investment fund industry.
- The Securities Commission (CNVM) has evolved as the leader in regulating and developing the securities industry, learning to effectively use its powers to ensure transparency, integrity, and fairness in the market. This followed from the CNVM implementing the institutional structure that served as a catalyst for all other participants in securities markets to operate in a manner to increasingly gain public confidence.

## II. Objectives

The challenges of this project were to assist quickly in the creation and development of new institutions, but do so with regard to the importance of sustainable effectiveness of the capital markets. This meant developing a regulatory framework that is permanent yet flexible, grounded firmly in Romania's financial and economic environment. FMI emphasized the critical need to strengthen the legal, regulatory, and institutional environment where market-based financial systems function. Investors and potential investors must have confidence that laws and regulations contain appropriate and impartial standards, are not subject to constant revision, and are administered fairly. At the same time, FMI was careful to seek a balance between enacting a strict regulatory regime to insure safety and soundness and the need to avoid imposing burdensome regulations which would impede market development.

The task order objectives were:

- (1) Improvement of the organization, financing, staffing, professional skill levels and policy making capabilities of the Securities Commission so that it could effectively regulate the Romanian capital market.
- (2) Improvement of the regulatory standards, regulatory understanding by market participants, and market participant compliance with applicable rules, including the development of self-regulatory organizations.
- (3) Development of the legal and regulatory infrastructure necessary to protect investors, stimulate market growth, and help assure integrity in Romania's capital markets.
- (4) Assist private sector and market growth, including broker-dealer development, investment fund development, capital formation, corporate governance, and trading on regulated markets.

- (5) Encourage broad scale public participation in Romania's capital markets.
- (6) Encourage market transparency, full disclosure and prompt dissemination of accurate market information to the investing public and marketplace at large.
- (7) Facilitate an organized, timely, and safe transfer of newly created shareowner records to private sector organizations for integration into the capital markets process.
- (8) Allow the GOR policy makers, the CNVM, and the investment community to assess the current state of capital markets development and take required additional legal, regulatory, and policy steps to insure integrity, transparency, and fairness in securities markets.
- (9) Strengthen the legal and regulatory framework for corporations and investors in the areas of trusteeship, securities definition, initial public offerings, corporate governance and shareholder rights, and commodity and futures transactions.

### III. FMI Accomplishments

FMI successfully accomplished all Task Order objectives as outlined above, and met or exceeded all project benchmarks.

Although it is difficult to briefly state what occurred over many months of work to achieve these broad objectives, the attached table, **Project Highlights**, provides a checklist of important project benchmarks and their successful accomplishment. These major project accomplishments offer an indication of the work FMI successfully carried out over a two-year period to assist a nascent securities commission to assume its mandated responsibilities to protect investors, insure a well functioning market, regulate securities intermediaries and other professional associations, insure the availability of accurate corporate information to the investing public, and police wrong-doing.

FMI is proud of the role it played in facilitating these accomplishments. Particularly so, as related to the opening of the securities market within a year of initiating the project, and regarding FMI's successful leadership in coordinating and facilitating the work of the other contractors dedicated to developing Romania's capital markets.



### Project Highlights

- ✓ Secured CNVM approval and implementation of a reorganization plan, including design and installation of a computer system and a securities market information-monitoring system.
- ✓ Accomplished extensive domestic and international training of CNVM Commissioners and staff.
- ✓ Drafted, submitted, and secured CNVM approval of over 30 securities market regulations and instructions.
- ✓ Spearheaded a major legislative drafting project to amend the basic securities market legal framework (Laws 31, 52, and 83 / Ordinance 24). Coordinated comments from other foreign advisors.
- ✓ Developed market surveillance and disclosure methodologies and assisted the CNVM in conducting audits, interviews, and books and records inspections.
- ✓ Conducted 21 major seminars across Romania for corporate issuers, reaching over 800 representatives of 706 companies.
- ✓ Produced and distributed 8 brochures and manuals on corporate governance and capital markets, and assisted the CNVM in its public education and outreach efforts.
- ✓ Testified before Romanian Parliament, securing confirmation of the CNVM as the sole regulatory body of commodities and securities markets.
- ✓ Oversaw growth of Romania's OTC market to 2,000 shares per day between October 1996 and December 1997.
- ✓ Proposed soon-to-be-implemented plan for electronic filing and accessing of annual and other reports by issues and others.

Phase I of the Romania Capital Markets Project (October 15, 1995 to December 15, 1996) featured an intense period of work on multifaceted aspects of developing the securities market. Because the Securities Commission was and is charged with broad powers over the capital markets, FMI was at the center of efforts to develop the requisite policy, legal, and regulatory framework. FMI assisted in the institutional growth and development of the Securities Commission, with priority to assist capital formation, protect investors and stimulate growth, assist the formation of new private institutions to oversee the safe transfer and eventual trading of shares from the Mass Privatization Program (MPP) to the securities market, and institutionalize the notion of an independent and fair government watchdog.

During Phase I of the project, FMI proposed and implemented a major reorganization of the Securities Commission, engaged in extensive training programs for Commissioners and staff, facilitated the adoption of regulations governing the creation and activities of SROs, and assisted the Securities Commission with rules and regulations concerning trading, clearance and settlement, and registries and depositories.

During Phase II of the project (December 1996 to December 1997), FMI's assistance to the Securities Commission focused on:

- (1) continuing progress in organizational, administrative, and regulatory development;
- (2) further refining and enhancing the legal and regulatory structure; and
- (3) assisting the Securities Commission in regulating and developing the market participants, including investment funds, broker/dealers, SROs, corporate issuers, depositories and registries, and the clearance and settlement process.

The highlights of FMI's activities in this period included leading a major legislative drafting project to amend basic securities market laws, development of market surveillance and financial disclosure methodologies and their implementation, policy and legislative advice, and a countrywide series of seminars on corporate governance and corporate issuer responsibilities. These accomplishments are presented in a series of tables in this report.

In implementing the above activities, FMI developed an especially productive and collaborative working relationship with the Commission that was critical to project success. A summary of FMI substantive benchmarks follows in table form as the following:

1. *Securities Market Facilitation*
2. *Securities Commission Organization and Development*
3. *Market Surveillance and Enforcement*
4. *Capital Markets Education and Training*

**1. *Securities Market Facilitation***

[See page 11.]

TABLE 1: SECURITIES MARKET FACILITATION

Task Order Goal	Selected Accomplishments	Relevant Date/Status
<p>Securities Commission review and approval of Investment Fund and Broker Dealer Activities and SROs.</p>	<p><i>Regulation</i> regarding the Activities of Securities Investment Advisers  <i>Regulation</i> regarding the Authorization and Operation of Self-Regulatory Organizations (SROs)</p>	<p>Published in O.G. 211/1996                      Published in O.G. 100/1996</p>
<p>Authorization of regulatory structure for clearing, settlement and depository institutions.</p>	<p><i>National Bank of Romania Directive No. 8/1997</i> regarding the regulation of Clearance and Settlement Operations  <i>Regulations</i> regarding the Authorization and Operation of the National Company for Clearing, Settlement and Depository (SNCDD)</p>	<p>No. 8/1997                      Published in O.G. 202/1996</p>
<p>Approval of secondary market trading systems and rules regarding activities in those markets.</p>	<p><i>Regulation</i> regarding the Licensing and Operation of Independent Share Registries</p>	<p>Published in O.G. 276/1996</p>
<p>Approval of secondary market trading systems and rules regarding activities in those markets.</p>	<p><i>Regulation</i> regarding the Licensing and Practice of Securities Intermediation  <i>Regulations</i> regarding Public Offers for Securities Purchases and Sales</p>	<p>Published in O.G. 176/1996                      Published in O.G. 37/1996 and 5/1996</p>
<p>Authorization and structure of securities markets.</p>	<p>Regulation regarding Securities Agents Temporarily Authorized as a result of the Mass Privatization Program</p>	<p>Published in O.G. 176/1996</p>

O.G. = Official Gazette

10

## **1. Securities Market Facilitation**

As Table 1 highlights, securities markets development in Romania had just begun in 1995 when this Task Order commenced. The initial tasks demanded extensive training, comprehensive and prioritized legislative drafting, detailed and relentless preparation of the CNVM Commissioners and staff, and diligent teamwork with the investment community leadership and the Privatization Ownership Funds to ensure a successful opening of RASDAQ, new securities market trading activity, and public support for the CNVM.

To accomplish this considerable effort, FMI worked closely with CNVM to create the necessary legal and market infrastructure that was both conducive to securities market growth and safe enough for the investing public. Investor protection, fairness and full disclosure, professional competency, and financial safeguards were central aims of the early work. From a practical standpoint, authorizing and certifying the institutions charged with executing the essential functions of securities market trading was also critical to the initial start-up of Romanian capital markets activity.

Specifically, FMI facilitated Romanian securities market development by drafting for the CNVM several licensing and operational regulations defining the scope and limits of proper securities market professional activities including the *Regulation regarding the Activities of Securities Investment Advisers*, *Regulation regarding Clearance and Settlement Operations*, *Regulation regarding the Authorization and Operation of the SNCDD*, *Regulation regarding the Licensing and Operation of Independent Share Registries*, *Regulation regarding the Licensing and Practice of Securities Intermediation* (broker-dealer licensing), and the *Regulations regarding Public Offers for Securities Purchases and Sales* (See, Table 1).

Public support is critical for any new regulatory agency to succeed, including the CNVM. Under the new securities law (Law 52), the CNVM had authority to regulate trading activity affecting millions of Romanian privatization coupon/shareholders. Accountability was therefore key to the legitimacy and success of this new institution called CNVM. From the very beginning, FMI worked closely with CNVM to enhance its ability to respond to the public via the press, to enable CNVM staff to properly answer public inquiries, and to continuously inform the public about CNVM actions and the reasons for action. Conversely, leaked confidential and privileged information gathered in the regulatory process and erroneous disclosures were thought to be damaging to the market, the investing public, and the CNVM. To prevent this harm, FMI drafted information disclosure standards for CNVM and provided CNVM employees with guidance on what, and how, to disclose or not to disclose, to appropriate persons, including the press,

investment fund management, and other governmental organizations. FMI also advised and assisted the CNVM to develop procedures for conducting Commissioners' closed decision-making meetings, with publicly accessible voting records and meeting minutes, to enhance and ensure CNVM institutional integrity before the public.

At various stages of the securities market development and privatization process, FMI recognized that for the CNVM to fully understand the difficult undertaking of securities market regulation in the context of transition from a centrally planned to a market-based economy, it benefitted the CNVM to gain an exchange of information and establish a dialogue with its former COMECON Central and East European neighbors. To facilitate these relationships, FMI arranged for the CNVM to visit the National Securities Commissions of the Czech Republic, Hungary, and Poland, and observe these countries' exchanges and trading activity. As a result of these established relationships, the CNVM to date maintains information exchanges with each of these country Commissions.

In addition to fostering relations with European neighbors, FMI guided CNVM Commissioners on a comprehensive training and study tour to the United States, visiting Chicago, New York, and Washington, D.C. for securities regulation training and dialogue with the U.S. regulators, exchange, and investment community leadership. In an effort to maintain this level of dialogue between the U.S. and Romanian leadership, and particularly the contact between regulators, FMI engaged former U.S. Securities and Exchange Commissioner Richard Roberts, whom the CNVM consulted on several occasions for advice and counsel during the course of the FMI project. FMI also assisted CNVM in gaining membership into the International Organization for Securities Commissions (IOSCO) in early 1996, and has since then sponsored CNVM's participation in the annual members' conferences, recently held in Warsaw and Taipei.

## ***2. Securities Commission Organization and Development***

[See page15.]

TABLE 2: SECURITIES COMMISSION ORGANIZATION AND DEVELOPMENT

Task Order Goal	Selected Accomplishments	Relevant Status/Date
Evaluation of overall organizational structure, staffing and funding issues.	<p><i>Department</i> by Department Reviews and Recommendations of CNVM Organizational and Professional Resources.</p> <p><i>Analysis</i> of CNVM Financial Sustainability and Funding Strategy</p> <p><i>Recommendations</i> for Reorganization of CNVM Staff and Structure</p>	<p>February, 1996</p> <p>October, 1996</p> <p>October, 1996</p>
Automation of CNVM and training of professional staff on use of upgraded systems.	<p><i>Establishment</i> of CNVM Local Area Network and Upgrading of Systems for Professional Staff Users.</p> <p><i>Creation</i> of CNVM Internet Access Capability</p> <p><i>Establishment, Development and Management</i> of CNVM Home Page</p>	<p>Completed in 1997</p> <p>Completed Sept., 1997</p> <p>Completed Sept., 1997</p>
Implementation of advanced information systems related to tracking and dissemination of information relative to capital markets.	<p><i>Establishment, Training and Development</i> related to CNVM LEGISTAR, which serves as Internal Tracking and Access System for CNVM Commissioner Meeting Minutes and Agenda Information.</p> <p><i>Establishment</i> of Real Time Monitoring Capacity of RASDAQ Trading on a Viewer-Only Basis</p>	<p>Completed April, 1997</p> <p>Completed January, 1997</p>
Implementation of procedures for coordination between divisions of CNVM and between CNVM and other regulatory authorities.	<p><i>Development</i> of Internal Communications Rules and Procedures for CNVM Commissioners, Staff and Departments</p> <p><i>Development</i> of CNVM Formal Inquiry Process Procedures for the Public and Securities Market Participants</p> <p><i>Development</i> of Internal Procedures for Referring Investigations from Divisions of Market Regulation and Corporate Finance to Enforcement Division</p>	<p>Completed</p> <p>Completed</p> <p>Completed</p>
Analysis of current and future staffing issues including strategic planning, drafting of job descriptions, and development of organizational charts.	<p><i>Design</i> of Model CNVM Staff Positions and Accompanying Job Descriptions</p> <p><i>CNVM Information Flow Procedures and Diagrams</i> for Internal and External CNVM Communications</p>	<p>November 1995</p> <p>April 1996</p>
Development of Securities Market Training Institution	<p><i>Institutional and Financial Feasibility</i> of Romanian Securities Institute (IRVM)</p> <p><i>Educational Support and Accreditation Programs</i> for the Romanian Securities Institute (IRVM)</p>	<p>March - October 1997</p> <p>January 1997</p>

Reviews Page Blank 14-

## ***2. Securities Commission Organization and Development***

As Table 2 highlights, a major goal of FMI's technical assistance was to enhance the organizational development of the CNVM. High priority was attached to conducting a thorough evaluation and audit of the CNVM's administrative structure, roles, and reporting responsibilities, creating educational programs to strengthen any deficiencies, improve staffing and personnel requirements, and direct budget resources. To facilitate its work in this area, FMI maintained and staffed an office in CNVM headquarters.

During the October 1995 to April 1996 period, FMI collaborated with the CNVM and its staff in carrying out two critical functions: (1) a department-by-department review of workloads, reporting responsibilities, and personnel skills; and (2) an analysis of internal CNVM information and communications flow procedures. The result was the proposal of a new organizational structure for the CNVM, the movement of personnel among key departments, and a new description of functional responsibilities among Commissioners. After considerable discussion, this new organizational model was accepted by April 1996.

FMI was also tasked with evaluating the computer hardware and software needs of the CNVM, and recommending appropriate purchases where required. FMI experts discovered that the CNVM in fact possessed considerable Hewlett Packard computer equipment, previously provided by a European donor. As a result, FMI found it appropriate to provide only limited technical expertise and training to establish a Local Area Network and to upgrade systems for professional staff users. FMI also assisted the CNVM in developing its internet access capacity and in developing and maintaining a CNVM Home Page on the Internet.

FMI led a major information systems initiative to establish and develop the CNVM LEGISTAR system, which serves as the internal record and information management system for the CNVM. This advanced system tracks all information received by the Commission, improves information flows among CNVM departments, and generates agenda information and minutes for all Commissioner meetings, thereby creating a permanent legal and institutional record. Likewise, a module addition to the LEGISTAR system has greatly facilitated the information filing requirements by companies reporting to the CNVM.

FMI's organizational development work with the CNVM was carried out against the backdrop of a seriously underfunded organization. The CNVM salaries are low, working conditions are poor, and staff turnover is high. Absent a decision by the GOR to provide the CNVM with new and improved office quarters, higher salaries, and a larger budget, the CNVM will continue to experience high rates of staff turnover and diminished effectiveness. Indeed, because of the situation, FMI

was almost constantly in a training or recruitment mode for the CNVM. Some successful initiatives were undertaken (see attached story on recruiting), and FMI trained key personnel, Commissioners and staff, at SEC and SEC-like study trips. Nevertheless, FMI's organizational development efforts would have been greatly facilitated by increased budgetary resources.

### ***3. Market Surveillance and Enforcement***

[See page 19.]



### **FMI Implements CNVM Recruitment Support Program**

In order to function properly, the CNVM must have highly qualified, committed personnel. However, it has been difficult to recruit such individuals. In fact, it has been losing qualified employees to the private sector even as its workload continually increases. Unfortunately, the barriers to recruiting highly qualified candidates are quite clear: CNVM employees must be knowledgeable of capital markets and be willing to work for a below-average salary in poor working facilities.

Responding to these difficulties, FMI designed and implemented a recruitment support program for the CNVM. In January 1997, FMI inaugurated a capital markets training program, targeting graduate students from Bucharest law schools and business schools. In the succeeding months, FMI conducted training sessions in capital markets theory and regulatory training with over 45 students for 12 weeks. The training sessions had as their motivation an effort to attract quality individuals for CNVM employment.

FMI staff trained participating students in corporate finance, public offerings, mutual funds, market regulation, enforcement procedures, and the function of the CNVM. The sessions concluded with a 15-page examination to measure prospects' aptitude and overall training effectiveness. The average student scored 80%. Results were shared with the CNVM recruitment staff. Nine graduates were selected for interviewing, from which six individuals were accepted for employment: three attorneys, two economists, and one computer specialist.

TABLE 3: MARKET REGULATION AND ENFORCEMENT

Task Order Goal	Selected Accomplishments	Relevant Date/Status
Drafting and implementation of laws and regulations concerning proper conduct and licensing procedures for securities markets players.	<p><i>Regulation</i> regarding the Code of Ethics and Disciplinary Action Procedures for Securities Agents and Companies</p> <p><i>Instructions</i> regarding the Computation of the Investment Funds' Net Asset Value (NAV)</p>	<p>ANSVM - Regulations, September, 1996 Published in O.G. 92/1996</p>
Development of enforcement and inspection methodologies and training on implementation.	<p><i>Methodology</i> for Inspection of Securities Companies, Depository Companies and Investment Funds</p> <p><i>Methodology</i> for Reviewing Filing of Public Offers</p>	<p>Completed August 1997</p> <p>Completed April 1997</p>
Manuals for enforcement, audit and investigative activities.	<p><i>Audit</i> and Investigations Procedure Manual</p> <p><i>Procedures</i> and Fundamentals for Conducting Enforcement Actions</p> <p><i>Litigation</i> Assistance for CNVM in Response to Court Challenges of CNVM Compliance and Enforcement Actions</p>	<p>February 1997 Published in O.G. 327/1997 Ongoing</p>
Procedures and methods for regular reporting and financial disclosure by issuers.	<p><i>Regulation</i> regarding Periodic and Continuous Disclosure Requirements for Issuers.</p> <p><i>Instructions</i> regarding the General Meetings of Shareholders for Open Joint-Stock Companies</p> <p><i>Emergency Ordinance</i> on Organizing and Conducting General Shareholders Meetings of Companies Privatized Under Law 55 Law 82, "On Accounting"</p>	<p>Published in O.G. 92/1996</p> <p>Published in O.G. 176/1996</p> <p>Published in O.G. 178/1997</p> <p>Completed</p>
Certification policies and procedures for investment funds, broker/dealers, independent registries and depositories.	<p><i>Fundamentals</i> for CNVM Certification of Independent Registries</p> <p><i>Guide</i> to Romanian Registry Qualification, Testing, Training and Registration</p> <p><i>Regulation</i> regarding the Authorization and Operation of Self-Regulatory Organizations</p>	<p>Published in O.G. 327/1997 Completed</p> <p>Published in O.G. 180/1996</p>

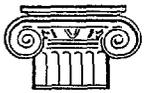
### **3. Market Surveillance and Enforcement**

As Table 3 highlights, market surveillance and enforcement remains a critical priority. Yet at the beginning of the project, when the CNVM was in its early development and Romanian market activity was also in its fledgling stage, it was feared that market surveillance and enforcement would deter capital markets growth. Recognizing this concern, FMI responded with a careful and even-handed approach to market surveillance and enforcement.

First, FMI aggressively undertook to educate the public, the industry, and the regulators about the benefits and importance of constructive and prophylactic market regulation to accompany and foster capital markets growth. FMI worked closely with CNVM Commissioners and staff, and industry professionals to ensure that over-regulation was not the objective ---but rather that investor protection, market integrity, transparency and fair play under clearly established rules were laudable goals and integral components to building successful capital markets in Romania.

To further these regulatory goals, from 1995-1997 FMI advised and assisted the CNVM and industry officials on how to implement securities market professional licensing requirements, codes of ethics, and fair and effective procedures for conducting CNVM audits, investigations, and enforcement actions affecting the securities market. (For examples, see, Table 3, referring to FMI drafted *Regulation regarding the Code of Ethics and Disciplinary Action Procedures for Securities Agents and Companies* as adopted by the ANSVM, and the *Methodology for Inspection of Securities Companies, Depository Companies, and Investment Funds* as presented to the CNVM in August 1997).

To facilitate implementation, FMI also conducted educational training sessions, compiled step-by-step written instructional manuals, methodologies, and checklists to simplify and teach market participants and regulators about the role and importance of each of these surveillance and enforcement areas. (For examples, see, Table 3, referring to FMI prepared *Audit and Investigations Procedure Manual, Procedures and Fundamentals for Conducting Enforcement Actions, and Fundamentals for CNVM Certification of Independent Registries.*) In 1997, for the benefit of the CNVM Enforcement Department, FMI prepared a comprehensive user's guide and hands-on manual for conducting investment fund and broker-dealer audits and investigations. In addition, FMI local staff and American experts worked together with CNVM Surveillance and Enforcement Division staff to ensure that the materials were both relevant and comprehensible to CNVM staff and Commissioners. FMI and CNVM staff also conducted together an actual on-site examination to monitor CNVM staff performance and application of the audit and investigation procedures.



**FMI Testimony before Parliament  
Supports Single Regulator for Securities and Commodities Markets**

In the third and fourth quarters of 1997, the Romanian Government adopted an Emergency Ordinance, and legislation was pending before the Romanian Chamber of Deputies to establish a new commodities regulatory authority, apart from the CNVM. FMI strongly advanced the proposition that the CNVM should be the initial (and ultimate) regulator of commodities markets. FMI met with key officials to discuss this issue, including CNVM President Boboc, Senator Pana, Legislative Counsel Nicolae Turcu, and the Managing Directors of the Bucharest Commodities Exchange, the Constanza Commodities Exchange, and the Sibiu Commodities Exchange.

Mr. Dennis Klejna, Commodities Advisor to FMI, prepared a briefing paper arguing for a "single regulator" with oversight of both commodities and securities markets, providing that the CNVM be given additional resources to fill this role. This paper formed the basis of Parliamentary testimony given by Mr. Klejna on November 19, 1997, before the Economic Committee of the Chamber of Deputies. Along with Mr. Klejna, President Boboc and FMI Team Leader Alan Rosenberg appeared before the Committee.

The highly unusual step of inviting a foreign national to testify before the Romanian Parliament reflects on the seriousness of the issues at stake and the high regard accorded to FMI's leadership in Romanian commodities market regulation. Comments made by Deputies at the hearing indicated they were convinced by FMI's testimony that the CNVM should be the sole regulator of Romania's commodities and securities markets. All efforts toward implementing the ordinance to create an additional regulatory body have currently been tabled.

This hands-on training approach adopted by FMI has greatly improved the confidence and competency level of CNVM Market Surveillance and Enforcement Division staff over the past year. Understanding what is to be examined, and why it is to be examined, has resulted in a significant increase in CNVM conducted enforcement actions in 1997. According to CNVM records, 27 broker-dealers and investment funds, 5 State Investment Funds (formerly Privatization Ownership Funds), and one issuer have all been subject to some form of CNVM market surveillance and/or enforcement action in the past year. This has resulted in numerous issued warnings, four cases of imposed fines, seven cases of license revocation or suspension, and in other instances, canceled trades, invalidated shareholder meetings, and dismissal and barring of fund management from further securities market participation.

Besides hands-on training, a number of logistical aspects requiring inter-institutional coordination and support arise out of the market surveillance and enforcement work. For example, in many instances, the CNVM is obliged to refer cases of financial fraud for investigation and prosecution to other State authorities, such as those under the jurisdiction of the Ministry of Justice or Ministry of Finance. FMI assisted the CNVM in devising proper protocols for case referral and coordinated investigation activities between the CNVM inspectors and the State prosecuting authorities of the Romanian Financial Guard and the District Attorney's Office. Conversely, where CNVM conducted enforcement actions on its own, resulting in court challenges to these actions, FMI assisted CNVM legal staff and provided litigation advisement and support as appropriate.

Throughout its work, FMI always considered that in order for any CNVM promulgated rules to succeed, they must be developed in consensus with those whom the rules are designed to regulate. Consequently, FMI established early on broad working relationships with not only CNVM Commissioners and staff, but also the investment community leadership, securities market operations staff, and key members of Parliament. Working hard to achieve consensus among these coalition members on various practical and regulatory issues, FMI helped foster and contribute to a greater understanding and more informed dialogue between the regulators and the regulated --a key ingredient to effective market surveillance and enforcement.

FMI played a central role in developing and training Romania's first self-regulatory organizations to police and monitor their own members for improper trading conduct, listing and net capital violations, full disclosure and advertising requirements compliance, and corporate governance awareness and compliance. (For examples, see Table 3, referring to FMI drafted *Regulation regarding the*

*Authorization and Operation of Self-Regulatory Organizations, Instructions regarding the Computation of the Investment Funds' Net Asset Value, Methodology for Reviewing Filing of Public Offers, Regulations regarding Periodic and Continuous Disclosure Requirements, Instructions regarding the General Shareholders' Meetings, and Emergency Ordinance on Organizing and Conducting General Shareholders Meetings of Companies Privatized Under Law 55.)*

Another challenge that Romanian regulators and market participants faced, and still face today, is how to convey market information that is meaningful, uniformly presented, and comprehensible to the Romanian investor public. Moreover, in the changeover from State ownership to private ownership, the rights and responsibilities of corporate issuers vis à vis shareholders was only dimly understood. FMI has been uniquely successful in assisting the CNVM and the investment community to overcome these public education and communication obstacles. To illustrate, FMI and the CNVM worked together to incorporate into the body of Romanian laws and regulations, internationally accepted standards for accounting, trusteeship, and for qualifying external independent auditors of open joint-stock companies. This was done in coordination with the Romanian National Association of Auditors and Accountants (CECCAR), the CNVM, the securities market professional organizations, and foreign investment community representatives. FMI launched a nationwide corporate finance outreach program to educate the management and comptrollers of recently privatized and to be privatized, corporate entities about the legal and practical requirements for conducting business responsibly and in accordance with Romanian company, accounting, and securities laws.

#### ***4. Capital Markets Education and Training***

[See page 25.]

TABLE 4: CAPITAL MARKETS EDUCATION AND TRAINING

Task Order Goal	Selected Accomplishments	Relevant Date/Status
Domestic and international training programs for CNVM Staff and Commissioners	<p><i>Design</i> and Implementation of Training Programs for CNVM Regional Office Staff</p> <p><i>Design</i> and Implementation of Standardized Testing Procedures for CNVM Professional Recruitment</p> <p><i>Customized</i> training programs for Commissioners in U.S. and abroad involving detailed sessions with senior private and public sector officials (2 Groups Encompassing All 5 Commissioners).</p>	<p>1997</p> <p>1996-1997</p> <p>August/September 1996</p> <p>April 1996</p>
Extensive outreach program to corporations concerning proper corporate governance and corporate finance procedures.	<p><i>Design</i> and Implementation of Extensive Corporate Finance Outreach Program across country over 800 directors and corporate representatives in attendance.</p> <p><i>Development</i> and Production of Corporate Governance Manual.</p>	<p>Seminars Throughout Romania</p> <p>Published and Distributed, 1997</p>
Extensive public outreach concerning capital markets and their connection to economic growth and the privatization program.	<p><i>Design</i> and Implementation of an array of Education Brochures including "What an Investor Should Know" and "What an Issuer Should Know"</p>	<p>Published and Distributed, 1997</p>
Development of testing procedures and certification programs for public and private sector regulators.	<p><i>Training</i> Series on Stock Exchanges and OTC Markets</p> <p><i>Investment</i> Fundamentals Training Series for CNVM Staff</p>	<p>January 1996</p> <p>January - April, 1996</p>

23

#### ***4. Capital Markets Education and Training***

As Table 4 highlights, education and training was integral to FMI's Securities Commission Development Project. The initial focus for education and training initiatives was the Commission itself, from commissioners to computer specialists. FMI developed specifically tailored tutorials for the five Romanian Commissioners, beginning with the basic issues in capital markets and ranging through relatively sophisticated topics directly relevant to their jobs. In addition, international study trips were conducted to allow the Romanian Commissioners to observe and learn first-hand from market participants and regulators in advanced countries (see Appendix 5).

FMI engaged in ongoing training efforts to educate the CNVM division staff in their specific monitoring units in all facets of examination and surveillance. Classroom instruction in basic capital markets issues dominated the early months of the project, and was designed to bring the staff up to a sufficient level of understanding of capital markets so that they could perform their job responsibilities. With the successful introduction of the Commission reorganization in April/May 1996, training became more specific and oriented toward on-the-job training of staff in their divisional responsibilities. Training also included intense one-on-one tutoring on specific topics. FMI expatriate and Romanian staff worked closely and collaboratively with CNVM staff.

An example of the training effort was the FMI work with the staff of the CNVM Control Department on examinations and inspections. FMI consultant James Ryan, a former supervisor in the NASD's Chicago office with many years of regulatory experience, was the point person on training CNVM staff and FMI Romanian trainees on examinations and inspections of registered entities. Mr. Ryan and other FMI staff directly assisted the CNVM staff in conducting an examination and inspection of the registry, depository, and clearance and settlement entities, and registered broker-dealers. Seven inspections were conducted during November 1996 and, additionally, numerous "walk throughs," or cursory reviews, were also performed. The inspections were conducted by the staff of the CNVM Control Department, along with FMI trainees. It is noteworthy that the Romanian broker-dealers were very cooperative and did not question the presence of Mr. Ryan or the FMI trainees at the inspections. This hands-on collaborative inspection work between FMI and the CNVM staff was a highly valuable learning experience for the CNVM.

Beginning in 1997, FMI was tasked with educational outreach programs for Romanian companies, market participants, GOR officials, and the general public on the fundamentals of securities markets and the requirements for Romanian companies under the new regulations. FMI conceived and carried out a

collaborative educational program, with the active participation of the CNVM Commissioners and staff, focusing on corporate financial disclosure, corporate governance best practices, and the role of capital markets as a catalyst for economic growth. The training sessions served four interrelated purposes:

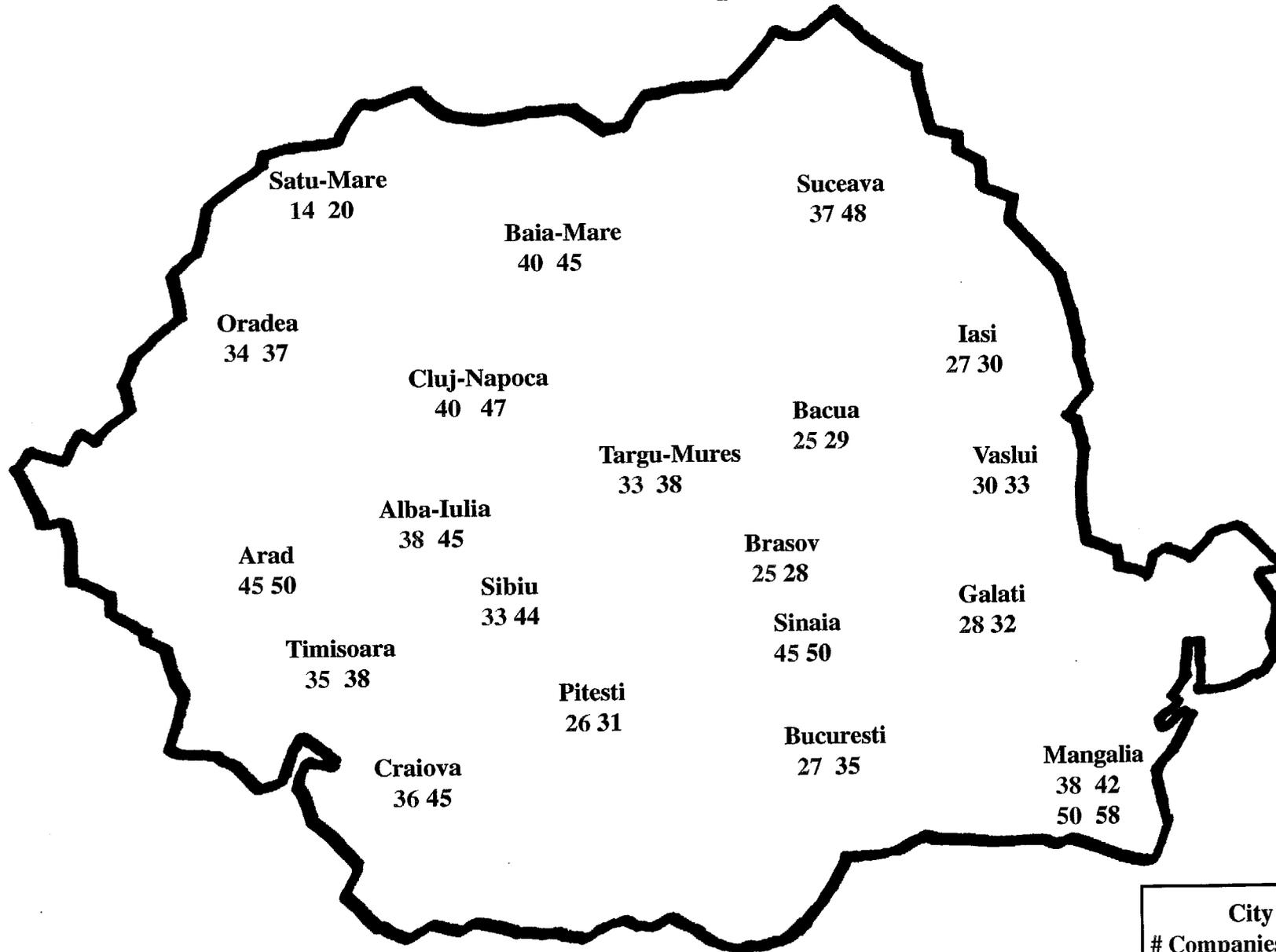
- (1) to provide corporate issuers practical and valuable information on the requirement to register with the CNVM and disclose financial information;
- (2) to inform privatized companies of their responsibilities and duties to shareholders;
- (3) to increase information in the marketplace for potential investors; and
- (4) to open lines of communication between the CNVM and market participants.

The seminars, which lasted a full day, were accompanied by educational materials (e.g., corporate governance manuals, company registration packets, brochures on *What an Issuer Should Know*, laws, and other materials on capital markets, etc.).

This FMI Seminar Series reached over 800 individuals representing 706 companies over a twelve month period. As the accompanying map indicates, FMI's educational effort blanketed the entire country. The approval rating of the content of the FMI seminars was over 90%.

FMI also carried out numerous educational activities to develop public awareness and support for capital markets. For example, FMI initiated an active media relations program to provide factual information to journalists on Romania's capital markets. Likewise, FMI contributed importantly to the development of a website on Romania's capital markets, working collaboratively with the Soros Foundation. Also, FMI expatriate personnel and local staff took the initiative in organizing, structuring, and teaching a seminar on capital markets for university level students in Bucharest.

# Romania: FMI Corporate Issuers Seminars



City Name  
# Companies # Individuals

27

#### IV. Lessons Learned

The commitment by USAID to support the development of Romania's capital markets on an accelerated basis in the summer of 1995 was extremely ambitious. As the GOR was preparing to issue shares in 4000 companies to 16 million Romanians in early 1996, there was no secondary trading system to handle the trading in shares which was expected to commence. USAID issued contracts to four different capital markets contractors to undertake the development of Romania's securities markets on a fast-track basis. FMI was tasked with assisting the Romanian Securities Commission to undertake a number of critical policy decisions to develop the marketplace. These included monitoring and approving share registry arrangements, approval of a trading system for privatization shares and the development of a legal and regulatory framework, clearance and settlement systems, regulation of existing and yet-to-be-created broker/dealers, approval of self regulatory organizations, and enforcement and market monitoring activities.

The Romanian Capital Markets Development Project was highly successful. The proof lies in the existence and functioning of an active securities market in Romania. As a successful example of rapid securities market development, the Romania case provides a number of important lessons.

**1. Strong project management is required to develop securities markets quickly.** Given the highly abbreviated timetable for securities market development in Romania, and the myriad players involved in the process, strong, forceful management was critical to success. USAID had to persuade and convince GOR officials of the need to undertake and support actions that frequently were not well understood, had to convince existing and potential market players of the soundness of its advice, and had to demand and get high performance from its four contractors. USAID provided strong leadership to the project in the person of Sarah Ackerson, and gave her considerable latitude in implementing critical policy decisions. In her work, Ms. Ackerson was supported by an excellent working relationship established with the U.S. embassy and a carefully negotiated Memorandum of Understanding (MOU) which helped to resolve numerous impasses.

**2. Long-term capital markets success requires developing institutions with an eye towards self-sustainability.** It will take several more years before Romania's capital market institutions are firmly established. However, two years of intensive in-country activity have facilitated a strong beginning. From the outset of the project, FMI was careful to inform and educate the Securities Commission and staff about its role as an adviser, to argue positions on key issues based upon careful analysis not only of capital markets but also Romanian realities, and to frame its recommendations consistent with Romanian requirements and institutions.

Likewise, it was vitally important to train and develop the talents of FMI's local staff *and* to give them increasingly visible responsibility for programmatic functions.

**3. Market monitoring, inspection, and surveillance should not be neglected.**

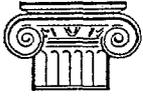
In the understandable rush to develop a functioning secondary market quickly, it is important not to overlook market regulation and enforcement. FMI made significant strides in working with the CNVM in developing regulations and procedures for investigations and enforcement activities, as well as success in training CNVM staff in market monitoring and inspections. FMI served as an important adviser to the Securities Commission on several enforcement cases, particularly involving net asset valuation calculations. Nevertheless, under current law the Securities Commission lacks subpoena power, and thus must refer cases to either the public prosecutors office or the Ministry of Justice. FMI recommends this procedure be corrected, either through a change in the law to give the CNVM its own powers, or by creating a special securities fraud prosecution division at the Ministry of Justice. Likewise, the SROs in Romania are not yet especially active in policing the activities of their members. Thus, a major focus of new technical assistance needs to be in the investigation and enforcement area.

**4. Train, Train, Train.** There is a seemingly insatiable demand for capital markets training in Romania. All four contractors had sizeable training components to their projects, and demand for and attendance at training events were uniformly high. FMI undertook numerous training initiatives with the CNVM staff, but given poor working conditions and high staff turnover, training was a never ending activity. Likewise, FMI's nation-wide experience with training seminars for companies on corporate governance and corporate finance revealed high level interest in continuing education on capital markets and its contribution to economic growth. In FMI's experience, training and education initiatives were most effective when FMI's trained Romanian staff assumed the lead role, buttressed by expatriate expertise as needed. This suggests that a major thrust of future capital markets education and training initiatives should be organized and sponsored by Romanian capital markets training institutions, under the tutelage of expatriate expertise. Over a twelve month period, the goal should be to transfer completely the capital markets know-how to a national institution.

**5. In order to have effective independence and to fulfill its mandate to protect the investor, the Securities Commission needs substantially more funding.** Currently, the Commission operates with inadequate office and infrastructure support, an inadequate budget, and too few and poorly paid employees. The dedication of the Commissioners and staff is all the more remarkable given the conditions under which they work. Either a greater budget allocation from the government or a provision allowing the Commission to retain filing fees (not fines)

must be approved to provide the CNVM with the ability to pay increased compensation. This greater CNVM compensation mechanism would also benefit the other capital market training institutions by lessening the need of the CNVM to be directly involved in the activities of its related training institute, IRVM, in potential competition for scarce funding.

**6. Fledgling enterprises only become mature institutions over time.** While a sound beginning has occurred in Romania and the CNVM has a good legal and regulatory structure to project and enforce, still much remains to be done. Indeed, an entire follow-on Task Order could be implemented for Romanian capital markets to improve identified shortcomings, provide the continuing assistance necessary to train-by-doing, and to institutionalize and sustain appropriate practices of all securities market participants. This includes continuing support to propagate good practices and to surveil and punish bad practices. The areas of necessary continued support are well known to USAID, and are thoughtfully reflected in a January 15, 1998 proposed USAID Task Order for Capital Markets Development in Romania. Its successful implementation will solidify a sustained capital markets infrastructure for Romania.



## Appendices

1. FMI Memorandum to CNVM Commissioners
2. CNVM Organizational Chart
3. *What the Securities Issuers Ought to Know*
4. Enforcement Department Investigations Report
5. Commissioners U.S. Training Programs
6. Corporate Governance Training Programs

**Appendix 1: FMI Memorandum to CNVM Commissioners**

## **Financial Markets International, Inc.**

### **U.S.A.I.D. Capital Markets Consultants**

Please respond to: 31 Kiseleff Blvd., Bucharest, Romania

Phones/Faxes: (401)222.78.24/222.82.65/222.84.32

---

### **MEMORANDUM**

**TO :** Stefan Boboc, President  
Mihai Radu, Vice-President  
Cecilia Cezara Bebis, Commissioner  
Emilian Popescu- Moscu, Commissioner

**FM :** Financial Markets International

**RE :** Accomplishments To Date

**Date :** October 26, 1997

---

As FMI completes its second year of technical assistance to the CNVM, please find attached a summary of the work accomplished to date. This is divided into four main areas:

- \* Legislative Drafting, including laws and regulations;
- \* Market Surveillance and Disclosure, including developing and assisting in the implementation of appropriate methodologies;
- \* Public Education and Training, including training for the CNVM staff in critical areas, and for the general public and market participants in all aspects of securities markets, but especially in corporate governance; and
- \* Organizational and Resource Development, including training and assistance in improving the CNVM's organizational structure, administrative efficiency, and internal and external communications.

In addition, we have assisted the CNVM in its handling of day-to-day issues, including responses to inquiries from market participants and coordination of activities of various regulated entities. As well, FMI has been on call and available to provide advice to the CNVM during times of market disruption.

We believe that this is a strong record of accomplishment, one that reflects equally well on the expertise of FMI and on the commitment of the CNVM to develop a sound legal and regulatory securities market structure for Romania.

### Legislative Drafting and Comment

As part of the overall effort to advise and assist the Commission (CNVM), FMI has drafted, amended, or provided commentary on several pertinent laws and regulations of Romania. Below is a select list of the most important of these laws and regulations:

#### Laws

- Law 31, "The Company Law"
- Law 52, "On Securities and Stock Exchanges"
- Law 83 and Ordinance 24, "On Establishment and Regulation of Investment Funds and Companies"
- Law 35, "The Foreign Investment Law"
- Law 58, "The Privatization Law"
- Law 55, "On Acceleration of the Privatization Process"
- Emergency Ordinance on Organizing and Conducting General Shareholders Meetings of Companies Privatized Under Law 55
- Law 82, "On Accounting"
- Government Decision No. 12, "On Capital Requirements for Companies Held by the State Ownership Fund (SOF) and the Investment Funds as a result of the Privatization Process"
- Law 66, "On Salaries for Employees of the CNVM and the Bucharest Stock Exchange (BSE)"
- National Bank of Romania (NBR) Directive No. 8/1997 regarding the regulation of Clearance and Settlement Operations
- Draft Law on Banking Activities and Regulation
- Draft Law on Commodities and Commodities Exchanges

#### Regulations and Instructions

- Regulation regarding the Activities of Securities Investment Advisers
- Regulation regarding the Activities of External Independent Auditors
- Regulation regarding the Statutes of the Commissioner General of the Bucharest Stock Exchange (BSE)
- Regulation regarding the Licensing and Practice of Securities Intermediation
- Regulation regarding the Code of Conduct of the CNVM Commissioners and Employees
- Regulations regarding the Code of Ethics and Disciplinary Action Procedures for Securities Agents and Companies
- Regulations regarding Public Offers for Securities Purchases and Sales
- Regulation regarding Periodic and Continuous Disclosure Requirements for Issuers
- Regulation regarding Securities Agents Temporarily Authorized as a result of the Mass Privatization Program
- Regulation regarding the Organization of the CNVM

- Regulation regarding the Reorganization and Liquidation of Open-End Investment Funds
- Regulation regarding the Authorization and Operation of Self-Regulatory Organizations (SROs)
- Regulations regarding the Establishment, Activities, and Operations of the CNVM Securities Registration Office
- Regulations regarding the Authorization and Operation of the National Company for Clearing, Settlement and Depository (SNCDD)
- Regulations regarding the Licensing and Operations of Clearance, Settlement, and Depository Companies
- Regulations regarding the Licensing and Operations of Independent Registries
- Instructions regarding Registration of Transfer of Ownership and Shareholder Record Maintenance
- Regulations regarding the Advertisement Activities of Investment Funds and Securities Companies and Agents
- Instruction regarding the Prohibition of Performance of Securities Intermediation by Unauthorized Natural or Legal Persons
- Instruction regarding Dematerialized Shares
- Instructions regarding Performance of Direct Securities Transactions
- Instructions regarding the Computation of the Investment Funds' Net Asset Value (NAV)
- Instructions regarding the General Meetings of Shareholders for Open Joint-Stock Companies
- Regulations regarding the Use of Proxies and Proxy Voting Procedures
- Instructions regarding the Submission and Transfer of Shareholder Records to the Independent Registries
- Instruction regarding the Transfer of Shareholder Records from BSE to the RASDAQ
- Draft Regulation on Custodial Agency and Nominee Name Ownership
- Draft Regulation Revising the Methodology for Computation of Investment Fund Net Asset Value
- Draft Disclosure Regulation for Fixed Income Securities
- Regulations regarding CNVM Decision-Making and Rules Adoption Protocols
- Regulations regarding the Implementation of Administrative (Notice and Comment) Procedures at the CNVM

### Market Surveillance and Disclosure

FMI has worked closely with the CNVM to develop market surveillance and disclosure methodologies for utilization by the various CNVM departments. Specifically, FMI's activities have focused on ensuring proper application of these methodologies when conducting broker-dealer and investment fund inspections, review and analysis of submitted issuer reports and all other disclosure filings, and analyses of securities market participants' prospectus and advertising materials. In addition, FMI staff has accompanied CNVM staff on several compliance and enforcement inspections involving Romanian securities market participants. FMI assisted CNVM generally in conducting audits and interviews, books and records inspections, and in formulating recommendations for proposed CNVM actions. Below is a short summary of the FMI accomplishments in this important area:

- Methodology for Analysis of CNVM Required Disclosure Reports and Filings
- Sample Inquiry Letter to Securities Market Participants Requesting Disclosure of Pertinent Financial Information for CNVM Reporting Compliance
- Methodology for Preparation of CNVM Required Continuous and Periodic Reports
- Methodology for Inspection of Securities Companies
- Methodology for Inspection of Depository Companies
- Methodology for Inspection of Investment Funds
- Comments and CNVM Points of Consideration for Insurance Contracts Between Investment Funds and Banking and Depository Entities
- Fundamentals for CNVM Certification of Independent Registries
- Proposed CNVM Quality and Operational Requirements for the BSE
- Methodologies for Net Capital Valuation Reporting and Compliance for Securities Companies and Investment Funds
- CNVM Action Letter and Instructions to All MPP Issuer Companies on How to Voluntarily Comply with CNVM Securities Regulations
- CNVM Inquiry Letter to ANSVM, UNOPC, the Romanian Shareholder Registry (RSR), the SNCDD, and BSE regarding System Technical Capacity and System Failure/Emergency Planning
- Methodology for Reviewing Filings for Public Offers
- Procedures and Fundamentals for Conducting Enforcement Actions
- Audit and Investigations Procedure Manual
- Pleadings and Filings (Litigation Assistance) for CNVM in Response to Court Challenges of CNVM Compliance and Enforcement Actions
- Examination Modules for Inspection of the BSE
- Proposed CNVM Revisions to the BSE Inspection Manual
- Comment Upon BSE Clearance and Settlement Regulations
- Guide to Romanian Registry Qualification, Testing, Training, and Registration

### Public Education and Training

FMI, together with CNVM, has successfully executed numerous public relations, public education and professional skills training programs as part of its commitment to developing the professional and other resources of CNVM. FMI initiated training and outreach programs regarding the fundamentals of capital markets and securities regulation for Romanian corporate issuers, IRVM, ANSVM and UNOPC members, members and staff of the BSE and RASDAQ, other Romanian government officials and staff, and the general public. Topics for training have ranged from good corporate governance practices to the role and differences between primary, secondary, and options and futures markets. FMI has also generated positive press and media coverage through its public outreach program for Romanian capital markets generally and the CNVM in particular. Attendance at all events has been both very high and representative of the industry. Positive feedback from training program participants has been received. Below is a summary of the most important training and educational accomplishments and activities conducted by FMI.

- Corporate Finance Outreach Program:  
18 seminars in every major city across Romania for corporate issuers covering the topics of good corporate governance, CNVM reporting and registration requirements, the role of primary and secondary markets, the role of CNVM and the importance of securities regulation, and how to use public relations as a corporate management tool. Over 800 directors and corporate representatives from MPP companies have attended these seminars.
- CNVM Professional Recruitment and Training Programs  
Involving professional competency testing and training for prospective and current staff of CNVM
- Law and Economics Students in Training Program  
Focused on preparing the best and brightest students on the fundamentals of capital markets and legal and financial aspects of securities regulation
- CNVM Annual Report Preparation and Publication Assistance
- CNVM Public Education Materials Preparation and Publication Assistance for the International Investment Forum of 1997 Sponsored by the Government and Presidential Office of Romania
- Various educational brochures including:
  - “What is the CNVM and What is Its Role in the Romanian Capital Markets ?
  - “What an Investor Should Know”
  - “About Corporate Bonds”
  - “What an Issuer Should Know”
- FMI Corporate Governance Manual
- Guide to Romanian Registry Qualification, Training, Testing, and Registration
- 16 Often Asked Questions Regarding Capital Markets in Romania
- CNVM Commissioner Training, Testing, and Model Essay Answers
- Training Programs for CNVM Regional Office Staff
- Questions and Answers for the Average Romanian Investor

- FMI Seminar Series on Broker-Dealer Net Capital Requirements and Reporting, and Maintenance of Books and Records. Attended by over 50 Romanian Broker-Dealers.
- FMI Standardized Testing Procedures for CNVM Professional Recruitment
- Intensive Market Surveillance and Enforcement Training Program
- FMI Training Series on Stock Exchanges and OTC Markets
- Roundtable Workshop Series on Capital Markets in Romania in 1996 Involving presentations by and participation of several key Romanian government officials and CNVM Commissioners and Department Heads
- Clearance, Settlement, and Securities Transfer Operations Terminology Short List
- Investment Fundamentals Training Series for CNVM Staff
- FMI-CNVM Tutor and Question-Answer Liaison Program
- Several International Study and Conference Participation Tours for CNVM Commissioners and Staff  
Including visits to and courses at the most important securities and commodities exchanges, securities and investment companies, Securities Commissions, self-regulatory organizations, and securities educational institutes in the cities of Prague, Budapest, Washington DC, New York, and Chicago.
- IOSCO Membership and Conference Participation for the Romanian CNVM and its Commissioners  
Including the Romanian CNVM Commissioners' attendance and participation in the IOSCO 1996 Warsaw Conference on Securities Markets and Regulation in Emerging Markets and the 1997 Annual Members' Meeting in Taipei.
- Speech Preparation Assistance for CNVM Commissioner Addresses and Testimony before:
  - International Investor Forums
  - Former Romanian President Iliescu
  - Senate and House Capital Markets Committee Members
- Advise and Assist CNVM for Participation in the Accounting Steering Group for Romania
- Advise and Assist CNVM for Participation in the Pension Reform Working Group for Government Institutions in Romania
- Educational Support and Accreditation Programs for the Romanian Securities Institute (IRVM)

### Organizational and Resources Development

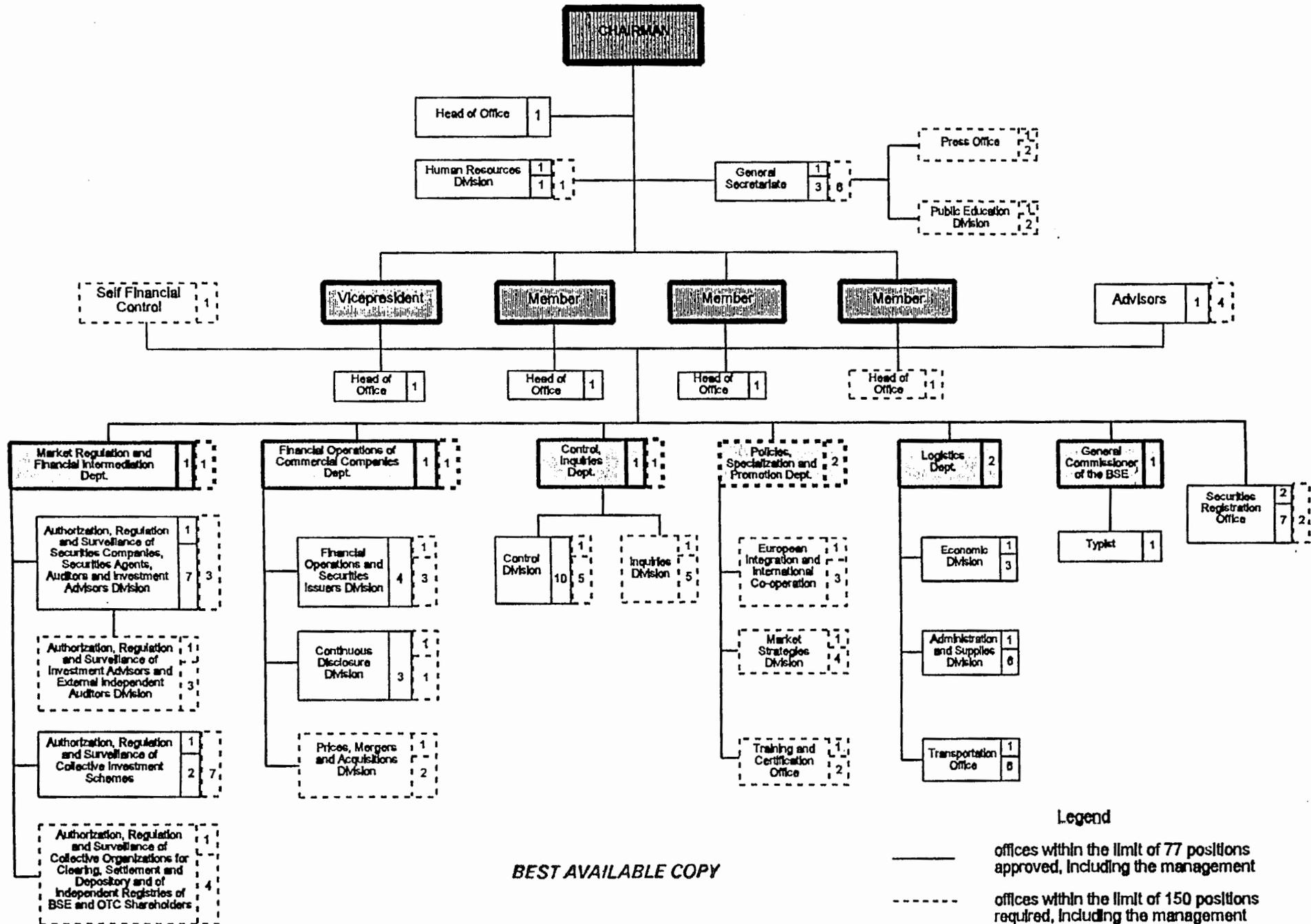
In addition to advisory and drafting assistance, FMI worked closely with CNVM to evaluate the professional, technological, and organizational resources of CNVM and other capital markets institutions on an ongoing basis. FMI performed several analytical studies and proposed comprehensive recommendations for improving CNVM's efficiency, communications, departmental and overall organizational structure, and administrative procedures. Below is a list of the most important FMI activities in this area.

- Several CNVM Organizational and Professional Resource Assessments and Recommendations: Department by Department Reviews and Recommendations
- Romanian Securities Institute (IRVM) Feasibility Study
- Romanian Share Registry (RSR) Fee Structure and Statement Analyses
- CNVM Financial Sustainability and Funding Strategy Analysis
- Analyses and Recommendations for CNVM Human Resources and Physical Facility Requirements
- Internal Communications Rules and Procedures for CNVM Commissioners, Staff, and Departments
- CNVM Formal Inquiry Process Procedures for the Public and Securities Market Participants
- CNVM Information Flow Procedures and Diagrams for Internal and External CNVM Communications
- Recommendations for Reorganization of CNVM Staff and Structure
- Model CNVM Staff Positions and Accompanying Job Descriptions
- Media and Press Relations Internal Procedures and Recommendations for CNVM
- Internal Procedures for Referring Investigations from Divisions of Market Regulation and Corporate Finance to Enforcement Division
- Administrative Protocols for Case Referral from CNVM to Criminal Authorities in Romania
- CNVM Internet Access Capability
- CNVM Home Page Establishment, Development, and Management Training
- CNVM Network Establishment and Upgrading for all 50 CNVM Staff Users
- Establishment of CNVM Real Time Monitoring Capacity of RASDAQ Trading on a Viewer-Only Basis
- Establishment, Training, and Development related to CNVM LEGISTAR, which serves as an CNVM Internal Access and Tracking System for CNVM Commissioner Meeting Minutes and Agenda Information

- Establishment, Training, and Development related to CNVM CONTRACK, which serves as an Internal Access and Tracking System for Information on Securities Market Participants and Issuers Between the various CNVM Departments
- Office of Securities Registration (OEVM) Optical Scanner Capacity for Document In-Take and Processing of Reports Filed at CNVM
- Electronic and Digital Format Protocols for Submission of CNVM Reports and Filings for Internal Use and for Future Public Access on the CNVM Website

**Appendix 2: CNVM Organizational Chart**

# ORGANIZATIONAL CHART OF NATIONAL SECURITIES COMMISSION YEAR: 1997



# THE STRUCTURE OF THE CAPITAL MARKETS

## I. THE NATIONAL SECURITIES COMMISSION ("CNVM")

**Date of establishment:** October 6, 1994

**Statutes:** Autonomous administrative authority with legal personality, consisting of five members appointed by the Parliament in a joint meeting of the two Chambers.  
CNVM submits an annual activity report to the Parliament.

### **CNVM's objectives:**

- \* To administrate, enforce, survey and control the compliance with Law no. 52/1994 regarding securities and stock exchanges;
- \* To support a good functioning of the securities market;
- \* To ensure investors' protection against unfair, abusive and fraudulent practices;
- \* To inform the securities holders and the public about issuers and the securities issued by them;
- \* To establish the framework of the activities of the securities intermediaries and agents, the regime of the professional associations established by them and of the bodies in charge of assuring the functioning of the securities market.

## II. THE STAGE OF DEVELOPMENT OF THE SECURITIES MARKET - MARCH 1996 -

1. Authorized securities companies:	163
of which	
authorized to negotiate on the Bucharest Stock Exchange:	87
2. Authorized securities agents:	3584

## III. THE BUCHAREST STOCK EXCHANGE

<b>Date of establishment:</b>	21.04.1995 through CNVM Decision no. 20
<b>Date of opening:</b>	23.06.1996
<b>Founding members:</b>	24 securities companies
<b>Associated members:</b>	100 securities members

**Appendix 3: *What the Securities Issuers Ought to Know***

## WHAT THE SECURITIES ISSUERS OUGHT TO KNOW

### CONTENTS

- I. LEGAL PROVISIONS REGARDING THE SECURITIES ISSUERS
- II. THE COMMERCIAL COMPANIES AND THE CAPITAL MARKET
- III. MEANS OF FINANCING COMMERCIAL COMPANIES
- IV. THE DUTIES OF ADMINISTRATORS TOWARDS SHAREHOLDERS AND COMPANY
- V. USEFUL ADDRESSES AND TELEPHONE NUMBERS

## WHAT THE SECURITIES ISSUERS OUGHT TO KNOW

### I. LEGAL PROVISIONS REGARDING SECURITIES ISSUERS

The main law regulating the activity of commercial companies in Romania is Law 31/1990.

It was the one to guide every step lying at the basis of the development of commercial companies.

Law 31/1990 went through a series of modifications meant to answer to the new situations turned up in this field.

According to the provisions of Law 55/1995 for the acceleration of the privatization process, state-owned commercial companies subject to mass privatization have become publicly held companies.

Thus, the condition of public offering required by the law for a company to qualify as publicly held was fulfilled by the Government Decision 625/1995 for the approval of the list of commercial companies privatizing pursuant to Law 55/1995 regarding the acceleration of the privatization process.

The Annex to GD 625/1995 proved to be a real prospectus of public offering through the essential elements of the trading of shares offered to investors.

According to art. 15 of Law 55/1995, the shareholders who received shares through exchange or sale within the mass privatization process, can transfer their shares through negotiation on the securities market.

According to the provisions of art. 21 of Law 55/1995, this category of shares is exempted from fulfilling the provisions of art. 26 of Law 52/1994 regarding securities and securities exchanges.

Currently, the commercial companies subject to a public offering or part of the Mass Privatization Process observe Law 52/1994 regarding securities and securities exchanges.

These companies also observe the regulations and instructions issued by CNVM, the authority regulating the activity on the capital market.

The provisions of Law 52/1994 applicable to these legal persons are exceptions of the overall regulations regarding commercial companies and their interpretation is therefore a strict one.

Thus, the commercial companies included in the mass privatization are subject to the obligations provided by the securities issuers legislation.

Art. 3 paragraph 2 of Law 52/1994 provides that "securities issued by the commercial companies established and functioning under Law 31/1990, even if subject to special legal regimes regarding their object of activity, are applied the provisions of the current law if and only when the shares, bonds and other stocks conferring rights to these companies are or have been the object of a public offering as specified in art. 2 paragraph 1 letter j.

Besides Law 31/1990 and Law 52/1994, some companies find themselves under Law 66/1993, namely, those companies administrated based on a

## WHAT THE SECURITIES ISSUERS OUGHT TO KNOW

management contract, not disposing of a board of administration, being run by a sole administrator.

### *Regulations and instructions*

## II. THE COMMERCIAL COMPANIES AND CAPITAL MARKET

The **capital market - the securities market** - is part of the financial services area. It is one of the most complex segments of market economy bound to contribute to the process of saving and investing and to an efficient allocation of the resources, to the establishment of a corporate governance system based on the supremacy of the ownership and on sever financial restrictions.

With the adoption of Law 52/1994 regarding securities and securities exchanges, the **National Securities Commission (CNVM)** was established, national authority in the area of securities and capital market. At the same time, the same law regulated the statutes of the Commission.

The National Securities Commission is a legal person, an autonomous administrative authority consisting of five members appointed by the Parliament. The National Securities Commission exercises its authority over the entire Romania.

According to art. 4 of Law 52/1994, the National Securities Commission is in charge with administrating and enforcing this law, as well as with surveying and controlling the observance with its provisions, being vested to this purpose with the power to regulate, decide, authorize, exempt, interdict, intervene, inquire and apply disciplinary an administrative sanctions.

Within CNVM there is the **Securities Registration Office (OEVM)**, established based on art. 21 of Law 52/1994, which receives all the necessary information related to securities and their respective issuers and to all the other natural and legal persons subject to the CNVM surveillance.

The main actors of the securities market are the **issuers** and the **investors**.

The **issuer** is a commercial company, an autonomous administration, authority of the central or local public administration or any other entity legally established and qualified as such by CNVM, which under the law issued, is issuing or intends to issue securities and which has the liability to acknowledge and honor their rights.

The most important benefits gained by the issuers of securities are the following: the ownership right can be transferred faster and the necessary money can be obtained much easier. These two advantages are favored by the existence of the capital market which plays an extremely important role in the commercial companies finance.

The **publicly held** company is a joint stock company established through public subscription or whose shares or other securities convertible into shares

## WHAT THE SECURITIES ISSUERS OUGHT TO KNOW

have been subject to a public offering regularly promoted and successfully concluded. The commercial companies subject to the mass privatization process have become publicly held companies as a result of Law 55/1995 (art. 21) and are not applied the provisions of article 26 of Law 52/1994 (regarding the offering prospectus required for the authorization of a securities public offering).

The *investor* is the money supplier to the securities issuers in exchange for an uncertain future income. The future revenues and the risk the investors take are based on the type of investors; they can have investment aims which may affect the strategy applied in the investments on the capital market. Some investors want to obtain a steady income, others an evaluation of the capital invested, others want a balance between income and growth. The investors can be classified in three big categories:

- financial institutions (banks, investment companies, insurance companies etc.)
- commercial companies
- natural persons

### *Primary market versus secondary market*

The capital market functions as a primary market as well as a secondary market for the securities issued by the commercial companies. The term *primary market* represents the initial selling of securities by the issuers. The *secondary market* is the place where these can be sold or bought after their initial sale.

*The primary market.* In a transaction on the primary market, the commercial company is the seller and obtains thus the money necessary for its development. The commercial companies can get involved in two types of transactions on the primary market: public offerings and private investments. The law provides that the public securities offerings must be *authorized* by the National Securities Commission, while private investments only *approved*. The commercial company must make available for potential investors detailed information about itself before selling the securities.

*The secondary market.* A transaction on the secondary market represents the selling of securities by an owner to an investor. Therefore, the secondary market is the one making available the means for the transfer of the ownership right on the securities issued by commercial companies. There are two types of secondary markets: *the auction market (The Bucharest Stock Exchange)* and *the interdealer market (RASDAQ or OTC)*.

### The Bucharest Stock Exchange

*The listing* - Those shares traded within an organized exchange are said to be listed on the respective exchange. In order to be listed, the commercial companies must fulfill certain minimal criteria regarding the number of shareholders, the size of the assets, the number of outstanding shares etc.

## WHAT THE SECURITIES ISSUERS OUGHT TO KNOW

The publicly held companies wishing to list their securities on the exchange, do so based on the requirements provided by Law 52/1994, after which they have obtained first the approval of the entire general shareholder assembly.

The listing of the securities on the Exchange will be performed for:

1. The sector of securities issued by Romanian legal persons (category II base and category I)
2. The sector of bonds and other securities issued by the state, towns, districts, villages, by authorities of the public central and local administration and other authorities.
3. The international sector

A commercial company can initiate the procedure of listing on the BSE only through a securities company of the BSE Association.

The securities company initiating member has the obligation to support before the Listing Committee the listing of the securities belonging to the respective issuer.

The issuer will conclude the registry contract with the Exchange which will act as agent of depository, registration and transfer.

The system for performing transactions is the continuous market, these being executed when the orders of the selling and purchasing price for a security coincide. The exchange transactions are carried out after the introduction of the orders in the computerized trading system, through the computers installed in the Exchange trading room, by the brokers based on the selling/purchasing orders received from the clients.

Settlement takes place three days after transactions are concluded at the BSE and is performed based on documents issued by the Exchange after each trading session and confirmed by the securities companies for which they were issued. These reports specify the net or payable amounts for each and every securities company.

The register represents those recordings of the Exchange aimed at keeping the Share Registry, the Shareholder Registry and the Bonds Registry.

The registry will furnish information to the issuing companies on the following occasions:

- a) the ordinary and/or extraordinary general assemblies
- b) payment of dividends and interest, reimbursement of the bond loan
- c) upon request of such information

### ***Documents required for a commercial company's listing on the BSE***

1. registration application
2. document regarding the presentation of the issuer
3. the statutes and company charter and all additional acts from the Register of Commerce

## WHAT THE SECURITIES ISSUERS OUGHT TO KNOW

4. copies of the issuer's Registration certificate and Fiscal code
5. the public offering prospectus
6. the last two annual financial statements, certificates of external independent auditors and the semi-annual financial statements for the last two years of activity
7. the form with personal data and the police record of the each member of the issuer's management and the contact person with the BSE
8. the decision of the issuer's management regarding the listing of the securities
9. proof of the registration of the securities with the Securities Registration Office, issued by CNVM
10. commitment to list and remain listed
11. proof of the payment of the processing commission
12. the statement of a securities company representation of the issuer in the BSE
13. the CNVM decision regarding the opportuness of listing the securities at the BSE
14. any other documents the BSE deems necessary
15. the Registry contract concluded with the Exchange
16. proof of payment of the listing commission

### The RASDAQ/OTC market

**RASDAQ** is the trading system employed by the National Association of Securities Companies. It was established as a limited liability company and serves as operational entity for the OTC market.

The participants are interconnected to a data network (independent or linked lines).

The market is created by the intermediaries of securities competing with each other. Through the trading computers linked under direct access, they transmit quotations of securities supply and demand. Once they are introduced in the system, they are available to all participants. Transactions can be negotiated by telephone or even through the system itself.

The data about the market can be distributed to the institutional investors and other interested parties through the service of view-only access.

The electronic link between the components of the market is very important to the mobility of shares resulted from the Mass Privatization Process (MPP), these being issued in dematerialized form.

Thus, the transfer of ownership of the MPP shares will be performed electronically, without making it necessary - for every transaction - to go through the process of annulling and issuing new shares as certificates

The RASDAQ trading regulation proposed by ANSVM makes no specification of a financial criteria and does not impose commissions to the issuers for listing their MPP shares for trading in the RASDAQ system.

## WHAT THE SECURITIES ISSUERS OUGHT TO KNOW

More market-makers for a certain issue imply the tying up of a larger part of their capital for the buying and selling of the respective company's shares, offering thus a public assessment of its performance.

The existence of a public market for a commercial company's shares facilitates the obtaining of capital in a subsequent offering of shares at a cost as low as possible.

More market-makers for a commercial company's issue will draw "the sponsorship" - analysis reports pointing out the perspectives of the respective commercial company.

These reports represent a very important way of attracting capital.

In time, sponsorship can lead to the development of a financial consultancy relationship between issuer and one of its market-makers.

The system enables permanent public disclosure regarding the market prices, which requires no payment on the part of the issuers to ANSVM or the firms which chose to be market-makers.

Together with the issuers and investors, there are other institutions activating on the capital market and cooperating for the development and completion of the investment process.

### ***The National Company of Clearing, Settlement, and Depository for Securities (SNCDD)***

The SNCDD operates as a self-regulatory organization (SRO) and is authorized by CNVM.

SNCDD provides the financial organizations (securities companies and banks) with the following services for the MPP securities:

- Registering the transaction - ensures the registration of all trades executed between the Direct Users on the RASDAQ capital market according to the report received from the RASDAQ system.
- Settlement of transaction - SNCDD operates as a House for Interbanking Clearing and coordinates the process of settlement of the funds in currency and securities in the name of the Direct Users.
- Custody - SNCDD has the role of custodial agent, safely keeping the Direct Users' securities.

Operating in a dematerialized environment, the SNCDD system takes over the RASDAQ transactions at the end of each trading day, validates them and processes them for settlement which occurs three working days as of the day the transaction has been performed.

Authorized by the National Bank of Romania as House for Interbanking Clearing, SNCDD processes all payments for the transactions through an

## WHAT THE SECURITIES ISSUERS OUGHT TO KNOW

account opened with BNR, ensuring the efficiency and protection of the financial settlements of the securities trades.

### *The Romanian Shareholder Registry (RRA)*

RRA is a private company and its shareholders are eight of the most important banks in Romania.

RRA, together with RASDAQ and SNCDD, forms the OTC market. The three institutions represent an integrated system with multiple links and interdependencies. Thus, the electronic system employed by RRA is perfectly compatible with the SNCDD and RASDAQ systems, the data on the shareholders taken by the securities companies from the registry system comprising all the information required for execution of transactions on the RASDAQ and settlement through SNCDD of money and securities.

It is also very important that the RRA data base can be accessed by the securities companies from their headquarters, irrespective of their location, therefore requiring minimum of effort on their part in meeting the wishes of investors who can address a securities company from their area.

The services RRA offers to the issuing companies, the securities companies and the shareholders are the following ones:

- the keeping and updating of the shareholder registries based on the market transactions, donations, inheritances and private transactions dealing with the shares of the respective issuing companies;
- providing complete shareholder lists and changes in the structure of ownership, upon issuers' request;
- performing changes in name, address, identification document and personal numerical code and issuing confirmations;
- issuing account statements upon shareholders' request;

Soon, RRA intends to develop the services and facilities it offers, referring mainly to:

- distribute the network;
- facilitate the taxing of issuers based on the volume of activity
- notify each shareholder regarding the transfers performed by RRA to the Depository for his account opened with the registry;
- generate the shareholder lists electronically and ensure their updating as requested by the issuers;
- calculate and distribute the dividend for each shareholder;
- distribute to each shareholder the agenda for the shareholder meetings, collect their votes, centralize them and sent the issuer the result of the voting.

## WHAT THE SECURITIES ISSUERS OUGHT TO KNOW

### *Requirements for concluding contract with RRA*

In order to conclude the contract with the RRA, the issuers must submit copies of the following documents:

- the statutes and company charter with all applications for additional changes filed with the Register of Commerce Office
- the registration certificate issued by the Register of Commerce
- the company's fiscal code
- the minutes of receiving the shareholder list from the IMI
- the proxy of the company's representative
- the cession act concluded between the representatives of the company and SIF/SOF

### *The securities companies (SVMs)*

The purpose of the securities companies is the intermediation of securities. The connection between the capital market and the supply of funds on the financial market is achieved mostly through third parties, the financial intermediaries.

The securities intermediaries are defined as the legal persons authorized under the law who professionally exercise the securities intermediation.

They carry out their activity either as brokers (in the name of third parties, clients), or as dealers, namely in their own name. At the same time, they can act in both capacities.

No natural person can engage in the securities intermediation without authorization from CNVM.

## III. MEANS OF FINANCING THE COMMERCIAL COMPANIES

### *What is "commercial companies finance"?*

Imagine you are on the verge of starting your own business. Irrespective of the type of commercial company, you will have to answer the following three questions, one way or another:

1. What long-term investments should we engage in? That is, in what directions are we going to develop and what kind of equipment, buildings, cars will we need?
2. Where will we get the long-term financing we need to go through with the investments we wish to make? Shall we borrow money or draw in other shareholders?
3. How will we run the daily financial activities as the payments from the clients and to the suppliers?

These are in no way all the questions we shall ask ourselves, but they are among the most important ones.

## WHAT THE SECURITIES ISSUERS OUGHT TO KNOW

*The commercial companies finance* is largely the analysis of the possibilities of answering these three questions.

*The structure of the capital* - This is related to the manner in which the company obtains and uses the long-term financing required for its long-term investments. The structure of a company's capital represents the combination of long-term loans and equity employed by the company during the course of its activity.

The role of the managerial team is to serve the shareholders' interests. The shareholders' well-fare is the key word for a commercial company and the most important responsibility of the management is to maximize the shareholders' gains.

The possibility for the capital market to become an alternative of commercial companies finance has been considered very seriously lately, although the Romanian economy is traditionally under the sign of the bank credit.

The issuers can be newly established companies or already developed ones, which issue shares or bonds, based on their financial situation, the market conditions and their own interests. The investors acquiring these securities can be natural persons or institutions.

*When a commercial company issues shares*, part of the control over it is given up in favor of the investors whose main objectives are to have the company obtain profit and the dividends. In exchange for this option, the company obtains the money needed to establish itself or develop its activity. The commercial companies issue two main types of shares:

- common shares
- preferential shares

Both represent patrimonial rights on the issuer; they are sold initially by the issuer (commercial company), after which they are traded on the secondary market by their holders.

The investors buying *common shares* expect to gain dividends, representing their share from the company's profits, and hope that the *share's market price will rise*, so that their investment value more. The common shares do not offer any guarantees of performance, but in time they proved to be more profitable than other investments.

The investors buying *preferential shares* have a *guaranteed dividend* paid before the dividends distributed for the common shares. On the other hand, the dividend does not increase if the commercial company obtains larger profits and the market price for the preferential shares increases slower. The securities issuers' main responsibilities are the information of the shareholders about the progress of the company and the dividend payment, once established.

## WHAT THE SECURITIES ISSUERS OUGHT TO KNOW

When a commercial company sells bonds, it obtains money to invest in development and growth under profitable conditions for the issuer, as well as for the investor.

Investors often prefer bonds, partly because the issuing of new shares tends to decrease the value of holdings belonging to the existent shareholders. The bonds are also profitable for the issuer in point of the profit tax.

Unlike commercial companies, the government is not an enterprise generating profit and cannot issue shares; thus, bonds are the main means of obtaining the funds necessary for the state budget or for the payment of external debts.

The term or *maturity* of a bond are established at the moment of issuance.

There can be:

- ⇒ short-term bonds (one year maturity)
- ⇒ medium-term bonds (two-ten years maturity)
- ⇒ long-term bonds (over ten years maturity)

One of the attractions of the bonds is that they pay on a regular basis an amount pre-established as *interest* (that is why bonds are also called *regular income securities*).

Another attraction is that the issuer commits to paying the entire loan upon maturity, so that bonds seem less risky than other investments which depend on the ups and downs of the securities market.

Bonds have a set date upon which they become mature and the loan, representing the *nominal value* of the bonds, must be returned.

### The issuer's role regarding the issuing of securities

During the issuing of securities, the issuer plays an important role in:

- ⇒ disclosure of pending litigations
- ⇒ registration of documents with CNVM
- ⇒ providing sufficient offering prospectuses to the syndicate manager
- ⇒ assuming the responsibility for the completeness, accuracy and certification of all information in the prospectus
- ⇒ observing the enforced laws
- ⇒ using the funds resulted after the issue for the declared purposes
- ⇒ listing the new issue on one of the organized secondary markets

## IV. THE DUTIES OF ADMINISTRATORS TOWARDS SHAREHOLDERS AND COMPANY

The duty to act in good-faith, with loyalty and fairness is essential for the obligations of the administrators in corporate governance, as is the duty to represent all shareholders. All other obligations follow from these.

Loyalty is towards the company, as well as the shareholders. It includes the following obligations:

## WHAT THE SECURITIES ISSUERS OUGHT TO KNOW

- of keeping confidentiality on all matters regarding the company until a general public disclosure
- of making sure that administrators and other managers do not trade the company's shares when significant matters able to influence the share price have not been made public yet
- of making sure that certain business opportunities are not taken by an administrator or other members of the management (or relatives, friends, outside business partners) for personal gains
- of avoiding apparent conflicts of interest by informing on all interests an administrator might have related to the company, even if the respective interests are compatible with the company's ones, as well as not taking part to the debates regarding these matters

The obligation to act in good-faith requires of an administrator to have a wise and knowledgeable conduct in view of fulfilling his duties. This means that he has the duty to analyze facts basing his judgment on the experts' advise and usually act reasonably under the circumstances at that time.

The obligation of being fair represents a balancing of interests in conflict by the administrator when running the company's activity, as well as when fulfilling his main task, that of representing all shareholders.

The obligations related to fairness are important especially when there are transactions performed by shareholders, and the shareholders holding majority or control positions have the legal power to determine the execution of the transaction without taking into consideration the minority's opinion.

On the developed capital markets, the shareholders holding a majority or control position have the duty to be fair towards the minority shareholders, in spite of their legal possibility to have majority of votes.

In Romania, the main corporate governance body to whom this authority is delegated is the board of administration.

An important obligation regarding corporate governance is that which, according to Law 52/1994, a publicly held company has of offering a continuous and periodic disclosure to the current shareholders and investors (potential shareholders) regarding the company's activity.

Offering a continuous flow of information also improves the operations carried out in the course of the current activity. When the management knows they must inform the public on the results of the operations, be they favorable or not, aware that the activity carried out will be openly evaluated as a result of this disclosure, they will be stimulated towards a strategic thinking and seeking of methods of improving the current activity.

## WHAT THE SECURITIES ISSUERS OUGHT TO KNOW

### V. USEFUL ADDRESSES AND PHONE NUMBERS

#### 1. The National Securities Commission

Address: 21 Calea Grivitei, BUCHAREST  
Phone no.: 01 - 312 4200  
              312 4202  
              312 4203  
Fax: 01 - 312 4201  
              312 4416

The Commercial Companies Finance and Continuous Disclosure Department  
Phone no.: 01 - 650 3382

The Market Regulation and Financial Intermediation Department  
Phone no.: 01 - 650 2617

The Enforcement, Surveillance and Control Department  
Phone no.: 01 - 650 2715

The Securities Registration Office  
Phone no.: 01 - 650 2489

The General Secretary's Office  
Phone no.: 01 - 312 3586

The BSE General Inspector's Office  
Phone no.: 01 - 650 2715

#### 2. The Romanian Shareholder Registry (RRA)

Address: 13-17 Calea Calarasi, BUCHAREST  
Phone no.: 01 - 322 6380  
Fax: 01 - 321 1280

#### 3. RASDAQ SRL

Address: 2 Expozitiei Blvd. (World Trade Center - Entrance D),  
          BUCHAREST  
Phone no.: 01 - 222 4641  
              222 4884  
Fax: 01 - 222 4658

#### 4. The National Association of Securities Companies

Address: 2 Expozitiei Blvd. (World Trade Center - Entrance D),  
          BUCHAREST  
Phone no.: 01 - 222 5791  
              222 5792  
              312 4416

## WHAT THE SECURITIES ISSUERS OUGHT TO KNOW

Fax: 01 - 222 5798

### **5. The National Company of Clearing, Settlement and Depository for Securities (SNCDD)**

Address: 2 Expozitiei Blvd. (World Trade Center - Building F, Entrance D),  
BUCHAREST

Phone no.: 01 - 222 9348  
222 9360  
222 9370

Fax: 01 - 222 9353

### **6. The Bucharest Stock Exchange**

Address: 8 Doamnei Str. (within the National Bank of Romania),  
BUCHAREST

Phone no.: 01 - 323 0900  
323 5438

Fax: 01 - 323 5732

### **7. The National Agency for Privatization**

Address: 2-4 Ministerului Str., BUCHAREST

Phone no.: 01 - 614 9495  
615 0200  
613 6136

Fax: 01 - 312 0809

### **8. The State Ownership Fund**

Address: 01 - 650 5201  
211 8018  
211 4810  
211 4814

Fax: 01 - 210 4459  
211 9290

### **9. The Romanian Securities Institute**

Address: 16 Splaiul Unirii, BUCHAREST

Phone no.: 01 - 330 7922 extension 16095, 16093

Fax: 01 - 330 7923

**Appendix 4: Enforcement Department Investigations Report**

## REPORT REGARDING THE INVESTIGATIONS MADE IN 1997 BY THE ENFORCEMENT DEPARTMENT

During 1997, the enforcement department initiated controls of securities companies, open-end investment funds, investment companies, issuing companies as follows:

### a) *Control of securities companies:*

#### **SC ACTIVE INTERNATIONAL SA**

- Ordinance no. 1/23.01.1997 for sanctioning the company with a fine of 6,000,000 lei for uncompliance with art. 33 regarding the advertisement set forth in Regulation 3/1996.

#### **SC SCF GROUP AS SA**

- Withdrawal of company's authorization of operation no. 28/21.11.1995 for lack of activity. The withdrawal of authorization was made through CNVM Decision no. 3184/30.01.1997.

#### **SC BROKER SA**

- Ordinance no. 2/25.03.1997 for sanctioning the company with Published Warning for violating art. 39 paragraph 1 of Law 52/1994.

#### **SC ROMFIN SA**

- The subsidiary in Arad is sanctioned with Published Warning. The sanctioning is carried out under Ordinance no. 3/28.03.1997.

- The subsidiary of SC ROMFIN SA in Arad is sanctioned with suspension of activity for 30 days.

- CNVM Ordinance no. 5/28.03.1997 provides the canceling of trading with Dacia Pitesti shares.

- Through Ordinance no. 19/22.10.1997, Mr. Constantin Cojocaru, President of SC ROMFIN SA, is forbidden, for 5 years, to hold offices or carry out activities related to Law 52/1994 pursuant to art. 105 paragraph 1 letter d. At the same time, the subsidiaries in Targoviste and Piatra Neamt are withdrawn their authorization of operation.

#### **The securities companies:**

**FININVEST ROMANIA  
INVEST HOLDING**

**TRUSTINVEST  
EUROSAVAM  
INTERTRUST  
PRIMA BROKING  
RAI-GT  
VANGUARD**

- The sanctioning of these companies with warning for violating art. 39 paragraph 2 of Law 52/1994, art. 39 paragraph 3 of Regulation 3/1994. The companies were sanctioned under Ordinances 8, 9, 10, 11, 12, 13, 14, 15/26.06.1997.

**SC MACRO TRANZACTII SA**

- The company was sanctioned with a fine of 10,000,000 lei for noncompliance with Regulation 3/1996, art. 32 and 33. The sanctioning was made under Ordinance 18/16.07.1997.

**SC LIS MOBIL SA**

- Withdrawal of the company's authorization of operation for noncompliance with Regulation 3/1996 art. 7, item 1, art. 35, 36, 38, 39, and noncompliance with Law 52/1994 art. 39. The deeds are provided for and sanctioned under art. 104, letter d, 105, 108, letter b) and c) of Law 52/1994 and Regulation 3/1996 art 44, 51, 52. Withdrawal of the authorization of operation was made under Ordinance 20/22.09.1997.

**SC INVEST ARGES SA**

- The company's sanctioning with fine of 3,000,000 lei for violation of Regulation 3/1996 art. 32 and 33. The company's sanctioning was carried out under Ordinance 21/06.10.1997 and the sanctioning Decision 187233/06.10.1997.

**SC TVM INVEST SA**

- Withdrawal of authorization of operation D 181/06.10.1995 and of the authorization of negotiation on the exchange D 207/13.10.1995. Withdrawal of these authorizations was made under CNVM Decision D 1886/14.10.1997.

**SC INVEST HOLDING SA**

- Withdrawal of the operation authorization D 347/04.01.1996 and D 1058/06.08.1996 for violation of Regulation 3/1996 art. 4 letter i 2) and i 3).

The withdrawal of the authorization of operation was made under CNVM Decision D 1887/14.10.1997.

#### **SC TVM SA**

- The company's contraventional sanctioning for registering fictitious transactions provided by art. 40 paragraph 1 letter a) of Law 52/1994. The sanctioning consisted in suspension of authorization of securities intermediation for a period of 5 days, pursuant to art. 41 paragraph 1 of Law 52/1994. Company's suspension was made under CNVM Ordinance 24/30.10.1997.

Controls were carried out at the following securities companies:

#### **SC UNICAPITAL SA**

Following the findings, the company's management was warned to be more careful when complying with the provisions of Law 52/1994 and the CNVM regulations.

**SC SITA FINANCE SA**  
**SC ROINVEST BUCOVINA SA**  
**SC INTERFINANCE SA**  
**SC AUSTRO-ROM SA**  
**SC GIF SA**  
**SC TVM SA**  
**SC EXPANDIA SA**  
**SC CREDITANSTALT SA**  
**SC STOCK INVEST SA**  
**SC NOVA SA**  
**SC INTERACTIVE SA**  
**SC NICOVAL SA**  
**SC INTERTRUST SA**  
**SC AUREOLA 06 SA**  
**SC VANGUARD SA**  
**SC ACTIUNEA ROMANEASCA SA**  
**SC CAPITAL INVEST SA**

b) *Control of open-end investment funds:*

#### **CREDIT FOND INVESTMENT FUND**

- Review of the manner in which Titan Mar shares were redeemed on maturity date 20.01.1997.

**NATIONAL INVESTMENT FUND**

- Sanctioning of SC SOV INVEST SA management company of NIF with a 10.000.000 lei fine for violating the provisions of art. 32 paragraph 1 of GO 24/1993 and art. 44 and 45, Part I, Chapter I of Regulation 9/1996. The company's sanctioning was carried out under Ordinance 16/3.07.1997.

*c) Control of Financial Investment Companies:*

**SIF MUNTENIA  
SIF TRANSILVANIA  
SIF MOLDOVA  
SIF OLTENIA  
SIF BANAT-CRISANA**

The purpose of this control consisted in verifying the status existent on 31.10.1996 of the financial investments and the investments performed during the operation as POF.

*d) Control of the issuing companies:*

**SC VESTENEGRO SA**

- The purpose of its control was the legal validity of the General Shareholder Meeting. As a consequence of the control, CNVM's decision was the dissolution of the GSM.

**Appendix 5: Commissioners U.S. Training Programs**

Financial Markets International, Inc.  
U.S.A.I.D. Capital Markets Consultants

Please Respond to: Sergent Militaru Gheorghe 1  
1 Bucharest, Romania

Completed Training Program with Romanian Securities Commissioners

*August 24 - September 7, 1996*

Washington, D.C.

Saturday, August 24 & Sunday August 25

Arrival, Orientation  
Peter Levine at the airport

Monday, August 26

- Meeting 1 FMI Introduction at Office, Peter Levine
- Meeting 2 International Finance Corporation, World Bank, Robert Shakotko, Manager,  
Constantinos Grigoriadis, Market Analyst
- Meeting 3 Rick Roberts, Lunch

*Securities Exchange Commission*

- Meeting 4 Bob Strahota, Office of International Affairs
- Meeting 5 Arthur Levitt, Chairman
- Meeting 6 Jack Katz, Secretary, Internal Operating Procedures
- Meeting 7 John O'Hanlon, Assistant Chief Counsel, Karen McMillan, Special Counsel,  
Investment Management
- Meeting 8 Public Affairs, SEC News Digest
- Meeting 9 Commissioner Hunt

Tuesday, August 27

- Meeting 1 Rick Roberts, Breakfast
- Meeting 2 Consulate of Romania, Napoleon Pop, Deputy Chief of Mission
- Meeting 3 Investment Company Institute, Alexander Gavis, Assistance Counsel
- Meeting 4 Security Industry Association, Stuart Kaswell, Senior Vice President, George  
Kramer, Assistant General Counsel
- Meeting 5 Consulate of Romania, Nicolae Stan, Counsellor
- Meeting 6 Emerging Markets Investors Corp., Dobrinka Cidrof, Portfolio Manager  
US State Department, Michael Spangler, Regional Economic Advisor

64

Wednesday, August 28

- Meeting 1 Federal National Mortgage Association, Louis DeToledo, Director Corporate Development, Ramon Gomez , General Counsel
- Meeting 2 USAID / James Watson, Bob Singletary

New York, NY

Thursday, August 29

- Meeting 1 Depository Trust Company, Edward McGuire, General Counsel
- Meeting 2 Romanian Embassy, George Vasilescu, Economic Council
- Meeting 3 JP Morgan, Nicolas Rohatyn, Managing Director, Emerging Markets
- Meeting 4 Herzfeld & Ruben, Mark Meyer, Partner  
Romanian American Chamber of Commerce, Chairman
- Meeting 5 Merrill Lynch, Joyce Chang, Managing Director, Tiani Hausen, Director,  
International Emerging Markets Group  
Alliance Capital, Jose Cerritelli, Vice President
- Meeting 6 Arnhold Bleichroeder, Suzanne Patrick, Vice President

Friday, August 30

- Meeting 1 National Securities Clearing Corporation, Edmund Fanning, Vice President,  
Margret Koontz, Executive Director, Dennis Earle, Managing Director
- Meeting 2 Public Securities Association, Sarah Starkweather, Associate General Counsel,  
Caroline Benn, Senior Vice President, Stephanie Chin, Research Analyst
- Meeting 3 New York Institute Of Finance, Robert Gutrick, President

August 31-September 2

Escorted by Peter Levine in New York

Chicago, IL

Tuesday, September 3

- Meeting 1 Mayer, Brown, & Platt, Marshall Hanbury, Partner  
(Former General Counsel of CFTC)
- Meeting 2 Chicago Board of Trade, John Harding , Vice President, Mary Rooney, Regulatory  
Reporting Department, Judith Singband, Manager
- Meeting 3 Chicago Board Options Exchange, Loretta Berger, Manager, Dan Verr,  
Investigator, Market Regulations, Ken Silverstein, Member
- Meeting 4 First Chicago/NBD , Harvey Zabinsky, Fixed Income Portfolio Management

Wednesday, September 4

- Meeting 1 Chicago Mercantile Exchange, Jerry Beyer & Colleen Corr, Executive Vice President, Eric Wolff, Senior Vice President Regulatory Affairs.
- Meeting 2 Chicago Corporation, Richard Frodsham, Senior Vice President
- Meeting 3 Morningstar (Mutual Fund Rating Agency), Don Phillips, President

Thursday, September 5

- Meeting 1 Kemper Investments, Steve Dexter, Director Emerging Markets  
Rob Schumacher, Fixed Income Strategist, Tony Zaffero, Portfolio Trader
- Meeting 2 Brinson Partners, Bob Bernstein, Senior Vice President, Emerging Markets
- Meeting 3 Foley & Lardner, David Russof, Associate
- Meeting 4 Chicago Stock Exchange, Jeffery Lewis, Jim Meyerhoff, Vice President, Member
- Meeting 5 Illinois Institute of Technology, Financial Markets and Trading Program, John Bilson, Jane Hampson, Program Director

Friday, September 6

- Meeting 1 Franchising & Licensing World Center, Showroom Members, Merchandise Mart
- Meeting 2 Betzold & Berg & Nussbaum, Michael Coogan, Senior Vice President

Saturday, September 7 - Departure

Appointment Schedule Summary

Washington, DC

Number of meetings	=	17
Number of meeting days	=	3
Average meetings per day	=	5.6

New York, NY

Number of meetings	=	9
Number of meeting days	=	2
Average meetings per day	=	4.5

Chicago, IL

Number of meetings	=	14
Number of meeting days	=	4
Average meetings per day	=	3.5

66

FINANCIAL MARKETS INTERNATIONAL, INC.

PRELIMINARY OUTLINE (#7)

TRAINING PROGRAM

FOR

MEMBERS OF THE ROMANIAN SECURITIES COMMISSION

April 12-26, 1996

Attending: Mr. Mihai Radu, Vice Chairman, Comisia Nationala a Valorilor Mobiliare  
Mrs. Cezara Cecilia Bebis, Member, Comisia Nationala a Valorilor Mobiliare  
Mr. Emilian Popescu Moscu, Member, Comisia Nationala a Valorilor Mobiliare  
Mrs. Stela Paris, Escort, Consultant to Financial Markets International, Inc.

Note: The precise schedule, especially for New York, will depend on the availability of the various individuals and institutions scheduled. The following, therefore, is subject to change based upon that availability.

We have assumed that there can be a maximum of four segments each day - two each in the morning and the afternoon. Each segment should be approximately 1-1/2 hours.

April 12-19 Washington, D. C.

Friday, April 12 - Sunday, April 14 - Arrival, orientation and sightseeing

Saturday, April 12 Breakfast with Bob Bond, President, FMI

Monday, April 15

*Morning: FMI Offices*

Theoretical Background

Dr. Robert Strand, banking specialist at the General Accounting Organization and professor of international capital markets on theory of capital markets and economic development and the relationship of bank regulation to capital and securities markets

11:30 a.m. Meeting with Margaret Ghadar, President, Intrados, 2020 Connecticut Avenue NW  
(Deborah Thornton 667-8270, Ext. 13)

*Afternoon: Securities and Exchange Commission*

Securities Regulation

2:00 p.m. Bob Strahota, Securities and Exchange Commission: overview of securities regulation and the Securities and Exchange Commission and the Commission's international programs (942-2779)

3:30 p.m. Colleen Mahoney, Enforcement (942-4540)

Tuesday, April 16

*Securities and Exchange Commission*

Securities Regulation (continued)

10 a.m. Attendance at open meeting of the Commission: Annual Commission Meeting with Board of Directors and officers of American Society of Corporate Secretaries

1:30 p.m. Brian Lane, Director, Division of Corporation Finance (942-2800)

3:00 p.m. Bob Colby, Market Regulation (942-0094)

4:30 p.m. Tony Bosch, Investment Management (942-0528)

Wednesday, April 17 Industry and Self Regulation

*National Association of Securities Dealers*

(Being coordinated by Elisse Walter) (728-8230)

*Morning:* Segment 1: NASD Regulation  
Segment 2: NASD Stock Market

*Afternoon:* Visit to NASD and dealer operation

*Evening:* "Forever Tango" dance production

Thursday, April 18 Legislation and Legislative Relationships

*Morning:* Meet Kaye Williams of Securities and Exchange Commission Congressional Liaison Office, followed by visit to Congress, members and/or staff of Senate Subcommittee on Securities and House Telecommunications and Finance Subcommittee [Rick Roberts arranging and will accompany]

*Afternoon:* *Securities and Exchange Commission*

Securities Regulation, continued

2 p.m Jack Katz, Administration

*Evening:* Dinner with FMI officers and USAID officials at Bonds or Seegers

Friday, April 19

Industry Associations

10 a.m. Stu Caswell, General Counsel and David Strongin, Director of International Marketing, Securities Industry Association, their offices (296-9410)

To be scheduled: Representatives of Investment Company Institute, segment on Essentials of Corporate Governance

*Afternoon:* Rest of afternoon free and/or travel to New York

Saturday and Sunday, April 20 and 21: Free and/or escorted in Washington and/or New York

April 22-26 New York

Monday, April 22

10 a.m. Attend Annual Meeting of Shareholders of American Express Company, American Express Headquarters, World Financial Center, 36th floor. [Steve Norman, 640-5583]

2 p.m. New York Stock Exchange, Tour, Floor Operations and Regulation and Compliance [Jim Buck, 656-2060]

Tuesday, April 23

9 a.m. - 11:45 a.m. Stock Transfer and Custody Operations, Bank of New York [Bill Skinner, Vice President, 101 Barclay Street, 815-2128]

1:30 p.m. Public Securities Association [Paul Saltzman, General Counsel, 809-7000]

To be scheduled: Depository Trust Company

Wednesday, April 24

*Afternoon:* National Securities Clearing Corporation [Cristin Kelly, 412-8621]

To be scheduled for Wednesday or Thursday: Institutional investor representative [Jon Lukomnik, Deputy Comptroller, New York City Pension Funds, preferred or Eric Wollman, Administrative Manager, New York City Office of the Comptroller]

To be scheduled for Wednesday or Thursday: Accounting rules and regulations as an element of securities regulation [Rick Roberts to contact Richard Breeden at Coopers or Cion to contact E & Y or KPMG; New York or Washington depending on location of individual]

*Evening:* "Les Miserables"

Thursday, April 25

2 -4 p.m. Furman & Selz, Investment Management and Investment Fund [John Paleggi, 237 Park Avenue]

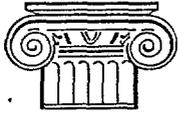
Friday, April 26 Investment Bankers/Brokers

Regulation of brokers, dealers and investment bankers: Meetings with representatives of Salomon Brothers [Harold Levy, 783-5953] Segments on investment banking and corporate finance, clearing and settlement, risk management and trading. In addition, the investment bankers will participate in providing a practical/theoretical wrap up, summarizing how the various segments are interrelated and relate to economic and capital development

Afternoon free and preparation for departure

FXBBPL10.496

**Appendix 6: Corporate Governance Training Programs**



# Financial Markets International, Inc.

To: Dr. Robert Bond  
From: Laura Pricop, FMI - Bucharest  
Date: January 7, 1998  
Subject: Issuers' Seminars 1997

Dr. Bond:

Please find below the information on the corporate finance/corporate governance seminars FMI carried out in 1997. As you can see, our reach covered the entire country. We had the participation of over 800 individuals representing 706 companies.

No.	Location	Date	How many attended	
			Companies	Individuals
1.	Bucuresti	6 February	27	35
2.	Cluj-Napoca	13-14 February	40	47
3.	Targu-Mures	20-21 February	33	38
4.	Vaslui	27-28 February	30	33
5.	Brasov	12 March	25	28
6.	Sinaia	21 March	45	50
7.	Sibiu	3 April	33	44
8.	Mangalia	22 April	38	42
9.	Timisoara	14 May	35	38
10.	Bacau	27 May	25	29
11.	Baia-Mare	6 June	40	45
12.	Iasi	12 June	27	30
13.	Oradea	26 June	34	37
14.	Arad	10 July	45	50
15.	Galati	6 August	28	32
16.	Mangalia	29 August	50	58
17.	Suceava	19 September	37	48
18.	Craiova	16 October	36	45
19.	Pitesti	13 November	26	31
20.	Satu-Mare	24 November	14	20
21.	Alba-Iulia	18 December	38	45
Totals:			706	825

In addition, several representatives of the local Government administration, Securities Companies, Financial Investment Companies (S.I.F.), State Ownership Fund (F.P.S.), National Agency for Privatization (A.N.P.), local Chamber of Commerce, and journalists also attended the seminars.

### **Issuer Training Topics**

Roles, Obligations, and Benefits in the Capital Market

CNVM Role on the Romanian Capital Market

Corporate Governance Best Practices

General Meetings of Shareholders/Proposed Amendments to law 31/1990/Provisions of the Government Ordinance no. 32/1997 regarding the amendments and completion of the Law 31/1990

Secondary Market Process

Auditing and Financial Disclosure Practices

OEVM Registration / Direct Transactions / Issuer-Related CNVM Regulations

Periodic Reporting and Disclosure Requirements

Instruments Available to the Issuers

Public Relations Tools and Practices