

CAPITAL Market

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Seminar organized by National Financial Market Commission on activities and duties of Central Depository will contribute to sale of state securities at Stock Exchange

Between June 16 and June 17, 2013, the National Financial Market Commission of the Republic of Moldova, with support from the Technical Assistance and Information Exchange Instrument of the European Commission (TAIEX), staged a seminar themed "Activities and Duties of the Central Securities Depository".

The seminar was given by Sanda Nan and Alina Dragomir, who are experts of the Financial Supervision Authority of Romania. During two days, they presented the accumulated experience and the sector reforms promoted in the context of the European integration of the capital market of Romania as regards the Central Depository.

The seminar opened with the description of the configuration of the capital market of Romania and of the financial instruments deposited and paid through the systems administered by the Central Depositories. The further discussions centered on the process of authorizing the Central Depository – conditions, documents that must accompany the application for authorization, and the validation by the administration of the Central Depository. They were followed by debates on the supervision and monitoring of the Central Depository and the securities clearing-settlement system, with emphasis on the objectives set in the supervision and monitoring process. There were also discussed the instruments used by the authorities in the supervision and monitoring processes, including the categories of reporting at the Central Depository.

Sanda Nan underlined the role of the Central Depository, saying that any transaction with financial instruments is followed by operations to clear, settle and transfer the ownership right. These operations are performed by the Central Depository with the aim of carrying out dealings in securities in a centralized way and of ensuring common control over them.

Alina Dragomir said that among the instruments used by the Financial Supervision Authority of Romania to supervise the Central Securities Depository are the following: periodical and ad-hoc reporting by the Central Depository in accordance with the regulations of the Financial Supervision Authority of Romania, requests for data, information, documents, requests for modifying/complementing the regulations and/or the practices of the Central Depository, periodical and thematic inspections carried

out at the head office of the Central Depository.

The Financial Supervision Authority of Romania also supervises the clearing-settlement system managed by the Central Depository as regards: the observance of the conditions imposed on the provision of authorization, ordered and transparent performance of operations to clear and settle securities and to fulfill the requirements on investor protection.

The major objectives of the supervision activity performed by the Financial Supervision Authority of Romania are: to promote confidence on the securities markets and in investments in financial instruments (securities); to ensure the protection of operators and investors against the disloyal, abusive and fraudulent practices; to promote the correct and transparent functioning of the financial instruments markets; ensuring of observance of the financial solidity and honest practice standards on the financial instruments markets; avoidance of appearance of system risks on the financial instruments markets; prevention of the infringement of the principles of equality of information and treatment of investors and their interests.

The National Bank of Romania (BNR) monitors the safe and efficient functioning of the payment systems and systems for settling operations with financial instruments for ensuring and maintaining financial stability.

The principal goals of the BNR in the monitoring of systems are: maintaining of financial stability; ensuring of an appropriate channel for transmitting the monetary policy; ensuring of the efficiency of the payments systems; observance of the legal framework by the payments system operators, and maintaining of people's confidence in payments systems, payment instruments and in the national currency.

The presentations and discussions on the second day of the seminar centered on the electronic connections between the securities settlement systems, which is a very important subject, especially in the context of the rise in the number of crossborder transactions. The debates focused on the elements taken into account when setting electronic connections as regards the assessment of the financial integrity and operational confidence of the systems, permanent monitoring of the potential sources of operational, lending and liquidity risks to which the entities involved in the adoption of measures needed to minimize them are subject.

There were discussed the principles included in the European Code of Conduct on Clearing and Settlement within the CPSS-IOSCO Principles for Financial Market Infrastructure, published last year, and within the draft regulations on the improvement of securities settlement operations in the European Union and the Central Depository and on the amendment of Directive 98/26/CE on the settlement finality in payment and securities settlement systems and of the one that is being negotiated within the European Parliament and the Council of the European Union.

There were also discussed the clearing-settlement procedures used by the Central Depositories of Romania, by describing the risk management measures (ex.: guarantee and margin fund, transaction limit, buy-in, sell-out, financial instrument borrowing), application of the principle 'delivery for money', settlement finality, models of holding financial instruments in accounts, by presenting the system of global accounts used by the Romanian Central Depository (including aspects concerning the daily settlement of possessions, technical and operational conditions applicable to intermediaries and the Central Depository, obligations to report the possessions).

Alina Dragomir said the Romania Central Depository can maintain the following systems of accounts: individual accounts of securities opened in the name of securities owners (register section), global accounts of securities opened by the participants, where there are registered the securities owned by clients.

Every account is allotted a common identification number according to the procedures of the Central Depository, while the participants in the system of the Central Depository can use one or several global accounts and an own account (house). The information furnished to the issuers (list of securities owners) is based on the reports transmitted by participants.

"It is strictly banned transferring property between the clients of participants in a global account, in a different way than by transactions, except for cases stipulated by the regulations of the Financial Supervision Authority of Romania. No transfer between the house account and the global client account or between the individual sub-accounts of clients from the global account, emphasized in the own back-office system of the intermediary – which is a participant in the system of the Central Depository –



can take place in the absence of a transaction, except for: operations for borrowing societies, operations for constituting financial guarantees with transfer of property formed of securities, operations to obtain guarantees without transfer of property, consisting of securities," stated Alina Dragomir.

In Romania, the intermediaries are obliged to use a software application in the back-office systems to daily indicate in the individual sub-accounts of the clients both the identity of every client and their possessions, by registering expressly the existing tasks related to the owned securities, following the performance of operations to borrow securities and to constitute associated guarantees. The back-office systems of the intermediaries must have the capacity to archive the history of all the transactions with sureties and the related operations, including operations to borrow securities and to constitute associated guarantees over securities.

Alina Dragomir said that in June 2009, the Committee of European Securities Regulators (CESR) and the European System of Central Banks (ESCB) published the Recommendations for securities settlement systems and Recommendations for central counterparties from the European Union, intended for securities regulatory authorities and bank supervision authorities. The ESCB-CESR recommendations are based on the au CPSS-IOSCO recommendations for securities settlement systems (2001) and the related assessment methodology (2002) as well as CPSS-IOSCO Recommendations for the Central Counterparties (2004).

The CPSS-IOSCO recommendations of 2001 and 2004 have been reviewed. This led to the formulation of the CPSS-IOSCO Principles for Financial Market Infrastructures and the related methodology that were published in April 2012 and, respectively, December 2012.

At the same time, expert Sanda Nan said that the clearing participants or settlement banks in Romania are lending institutions authorized by the National Bank of Romania or another supervision authority from a member state that signed a settlement contract with the Central Depository, a contract for the participation in the ReGIS system and a contract for the constitution and execution of guarantees with the National Bank of Romania, which take part in process

of selling securities registered in the system of the Central Depository and in which the participants in the clearing-settlement system and the register administered by the Central Depository own settlement accounts.

Sharing Romania's experience as regards the trading in state securities at the Stock Exchange, the experts of the Financial Supervision Authority of Romania said that in Romania there are three systems of payments – one for high-value payments in lei (ReGIS), one for low-value payments and large-volume payments in lei (SENT), and one for high-value payments in Euros (TARGET2-România). There is also a storage and settlement system for state securities and deposit certificates issued by the Central Bank (SaFIR) and two securities clearing-settlement systems – RoClear (that is run by the Central Depository, which is a member of the group Bucharest Stock Exchange) and SIBEX (that is run by the Sibex Depository, which is a member of the group Sibiu Stock Exchange), which settles through the ReGIS system. All the mentioned systems settle through lending institutions' accounts opened at the National Bank of Romania.

In this connection, Nina Savin, director of the Market Operations Department of the National Bank of Moldova, said: "Romania is at an advanced stage in regulations. Taking into account the fact that it is a member of the EU and better implement the EU directives in this field, it has more detailed regulations. We should take this into account given that the state bonds in Romania are already traded at the Stock Exchange. We are to organize this thing this year. The team was created and I hope we will success."

The seminar closed with debates on the strategies for developing the local environment. The discussions focused on the new elements brought by the EU Draft Regulations on Central Securities Depositories and the TARGET2-Securities project developed by Eurosistem, which will adjust the post-trading services environment at to the EU's over the next few years. It was underlined the importance of interconnecting the market infrastructures and of developing new services with the aim of ensuring access to foreign financial instruments for local investors and of increasing the liquidity of securities markets.

Florin LEVANTICA

New Green Card tariffs have been suspended

The new regulations concerning the setting of insurance premiums for civil liability insurance for damage caused by motor vehicles came into force at the beginning of this month. The most important modification concerns the premiums for international motor insurance certificate Green Card, whose price fell by 35%. Several days after the publication of the decision, the insurers sued the National Financial Market Commission (CNPF) for the reason that it didn't have sufficient reasons to reduce the tariffs.

On August 12, the CNPF received a decision issued by the Buiucani District Court. By it, the normative document drafted by the CNPF, which was published on August 9, was suspended. Thus, the approved tariffs had been used only for three days. Until a definitive court decision is pronounced, the insurance companies will provide services according to the earlier tariffs.

"What is happening now is not an uncontrolled situation and we should not speak about a 'war' between the CNPF and the Union of Insurers. I think it is a natural process and it is typical of all the cases when the state has the power to fix charges for companies on a certain market. We are making effort and are insisting on a direct, constructive and professional dialogue with the Union of Insurers so as to reach a compromise," CNPF vice president Lurie Filip said in a joint meeting.

GREEN CARD FOR 15 DAYS IS MOST POPULAR

In 2012, there were made amendments to the legislation on insurance, including the law on mandatory civil liability insurance for damage caused by motor vehicles (RCA), by which the National Financial Market Commission was empowered to decide the method of calculating insurance premiums. Thus, based on an actuarial method, the CNPF will annually calculate these tariffs.

The new power of the CNPF overlapped with the approval, on February 1, of the state automated information system RCA Data, which is an important work instrument of the RCA and Green Card insurers. The regulations concerning the setting of insurance premiums for motor civil liability insurance were approved by the CNPF's Administration Board on June 13.

"In order to maintain stability on the financial market, it was decided to slightly change the practice of the last five years. The price of internal motor insurance policies remained practically the same, but it was offered the possibility of reducing the basic premium



for Green Card insurance by 4% in the territorial zone III (all the countries of the Green Card system), for all the categories of motor vehicles. It was also proposed a decrease of about 36% only in the Green Card insurance with the period of validity of 15 days," said Lurie Filip.

Under the given regulations, the price of the Green Card insurance policy is set depending on the type of motor vehicle and the wanted destination. The most popular Green Card policies are for a period of 15 days. Thus, sales from such policies, which are valid in the EU countries, account for about 13% of all insurers' sales of Green Card policies. The price of a policy for motor vehicles valid for 15 days was set at €41 (down from €64 earlier), while of the basic premium – at €584 (down from €611). The CNPF's decision was based on actuarial calculations and the statistical information for the last five years, including 2012. There was considered the general situation on the insurance market.

On the other hand, the Union of Insurers demands reviewing these tariffs. It considers them untimely as there are no reasons for reducing the prices of insurance products, while the companies will sustain losses at the end of the financial year because of the CNPF's decision. "We consider that there were set much lower prices. That's why we aim to employ a licensed actuary and to reexamine these tariffs so as to establish if the methods used by the regulator are exhaustive or not, or there are alternative methods. If it turns out that the approved tariffs are justified, we will comply. Even so, we want a dialogue and good cooperation with the CNPF. Ultimately, the figures about which we speak today are reference figures. We will discuss as two mathematics and will reach that compromise wanted by the CNPF and the insurers,"

said Viorel Dandara, chairman of the Union of Insurers of Moldova. According to him, any price change must take into account the quality of products provided to consumers. The destruction of the insurance industry by tariff decreases should be avoided. "Evidently, the visions are different, but there are no reasons to reduce the price of the Green Card policy. What happens now is not a catastrophe and we must have a dialogue, especially because it is a sensitive issue," said Dandara. He underlined that the damages paid by the insurance companies since 2009 rose from 20 million lei to 66 million lei in 2012. Thus, the growth rate of damages was almost identical to the growth rate of the profit.

For the time being, given that the number of Green Card policies sold remained at the same level as in 2012, the assessment of the losses that the insurance companies will incur as a result of the implementation of the new tariffs shows that the losses will total about 9 million lei a year or 4% of the total sales on the Green Card segment. The head of the CNPF General Insurance Supervision Division Vladimir Stirbu said that the largest number of Green Card policies valid for 15 days are sold in the countries of the territorial zone I (Ukraine and Belarus). About 28,000 such policies a month are sold in summer. As regards the EU countries, 28,000 policies valid for 15 days were sold in 2012 for this direction. The insurance premiums amounted to 27 million lei.

A 4% LOSS AT MARKET LEVEL

"Until now, the Union of Insurers provided only arguments coming from the insurers. In fact, the private problems of the companies working on the insurance market are related to the efficiency of their management. The CNPF

had sufficient Profs and calculations to make the given changes. It is ultimately a situation related to evolution, not a revolutionary one," said the CNPF deputy head, adding that the regulator appealed the court decision taken several days ago.

Lurie Filip argued that the insurers take into account the own damage sustained, forgetting that there are also carriers and other motor vehicle owners that often need to go over the border for two days for example, but buy policies for 15 days so as to meet the risks. Thus, the companies have higher revenues compared with the real use of the insurance policy purchased by the buyer.

The CNPF data show that six companies on the local insurance market sold Green Card policies in the first half of 2013: Moldasig, Asito, Donaris-Grup, Grawe-Carat Asigurari, Moldcargo, and Astrovaz. They are all members of the mentioned union. The sales of Green Card policies totaled about 115.4 million lei, while the paid damages – 31.3 million lei at the end of this June.

Contacted by Capital Market, the chairman of the Association of Actuarial of Moldova Oleg Verejan said that he doesn't know the aspects of the problem raised by the insurers. "If the given situation intervened, we must analyze their request and calculate the tariffs in parallel," he stated. Oleg Verejan added that there are only six authorized actuaries in the Republic of Moldova, while the association he represents took part in the working out of the calculation method together with the CNPF. "The Association of Actuarial proposed a more complex principle for calculating the basis insurance premium, but they opted for a classical method that has arguments in the current actuarial practice," stated Verejan.

Lilia PLATON

Translation by Rodica CERLAT

The national payment council was established in Moldova

As the director of the National Bank Dorin Dragutanu has informed, the National Payment Council is a professional forum for consultations between the various public and private institutions to support safe and stable operation of the payment systems in Moldova.

The Council shall also stimulate competition at the non-cash payments market and promote safe and affordable non-cash payment instruments. In accordance with the approved charter, the National Payment Council will include senior representatives from the Ministry of Finance, Ministry of Economy, Ministry of Informational Technologies and Communications, e-management Center, Association of Banks of Moldova, as well as banks and other payment service providers and issuers of electronic money possessing NBM license. Dorin Dragutanu expressed hope that soon mobile operators and "Post of Moldova" will also join the Council. He noted that the discussions within the frameworks of the National Payment Council will provide an opportunity to identify existing obstacles in acting regulations relating to the payment and settlement systems market, and will allow developing final recommendations to the members of the local market.

Deficit of the trade balance of Moldova with EU states made up \$758.0 million in January-July, 2013, 9.6% up as compared with the same period of 2012

According to NBS, export of Moldovan goods to EU countries amounted to \$607.8 million, made up 45.9% of the total Moldovan export in the reporting period and grew 5.3% as compared with the same period of 2012.

At the same time, Moldova imported 7.6% more goods from the EU at an amount of \$1 billion 356.8 million, which was 44.5% of the total Moldovan import. In January-July, 2013, the greatest amounts of goods were exported from Romania and amounted to \$231.6 million, 19.3% up as compared with the same period of 2012. Then followed: Italy – \$93.7 million (-29.9%); Great Britain – \$56.6 million (+20.6%); Germany – \$56.3 million (+44.3%); Poland – \$46.3 million (+9.2%); Bulgaria – \$18.6 million (-8.0%); France – \$16.9 million (+2.8%); the Czech Republic – \$16.4 million (2.1 times up); Greece – \$15.9 million (2.2 times up); Hungary – \$10.8 million (-34.8%). The greatest amounts of goods imported from the EU were imported from Romania too and made up \$374.4 million, 15.7% up. Then followed Germany – \$222.8 million (+2.0%); Italy – \$191.2 million (+1.4%); Poland – \$75.7 million (-3.7%); Austria – \$75.5 million (+18.2%); France – \$61.8 million (+17.5%); Hungary – \$58.9 million (+14.7%); Bulgaria – \$52.1 million (+31.2%), the Czech Republic – \$38.0 million (+2.9%), Great Britain – \$34.1 million (-7.6%), the Netherlands – \$28. million (+2.8%) and others.

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