

Types of securities markets of the Bulgarian stock exchange and registration conditions

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Introduction on the stock exchange

In specialized literature there is no consensus on what exactly constitutes the introduction on the exchange and if you can put an equal sign between the concepts of listing, admission to trading and registration.

Based on the experience of European countries in which the introduction is a comprehensive preparation and reorganization of the company, with the aim of stepping on some of the markets on the exchange, whether the goal is raising additional capital or sell existing securities, concludes that¹:

- The term "introduction on the stock exchange" should be used when the company first appears on a regulated stock market. It can make that on the primary or secondary market, on a local or foreign market and according to the reasons, purposes of introduction and the legal norms to follow a certain procedure;

- The terms "admission to trading", "listing" and "registration" can be used interchangeably and refer exclusively to allowing for secondary trading on the exchange of specific financial instruments and on a particular regulated market.

In order to successfully introduction on the stock exchange, the company should consider well their opportunities for achieving set goals. One of the most commonly defined goals is increasing the company's capital by selling shares on domestic and foreign market. In this aspect, the introduction can be:

- Introduction only on a local market;
- Introduction on a foreign market;
- Introduction on a foreign market following registering issues on the local market.

The traditional introduction is a difficult and lengthy process, which sometimes lasts for years without ultimately the result of the introduction to be fully secured. So for a long time there's been a search for a quick and easy method for introduction and accordingly for registration of emissions. One of these new alternative ways is the "acquisition of control of a company that is already listed on the exchange which is often called a "shell company". "In turn, this control is received through:²

- Purchasing the main block of existing shares and it is usually negotiated with the present controlling shareholder;

- Reaching an agreement with the company and its shareholders to issue a large number of new shares in exchange for the sale of assets of the company or for a fee.

In practice, there are many examples of alternative ways of introduction. This can be done through: private sales and private placements and by an exchange shares under a scheme or offer.

In private sales and private placements, companies sell major emissions themselves or through investment intermediaries, thus increasing the shareholder

¹ Asenova, M., Stock Exchange, V. Tarnovo, Faber, 2012.

² D. Thornton, Corporate Finance, First Edition.

base and the market capitalization of the shares. Then they apply for registration to the exchange.

During the exchange of shares under scheme or offer is based on a new company that aims to absorb already introduced company with registered issues. The new company is usually a holding and the listed company becomes a subsidiary and the new company is granted registration by introduction.

Types of securities markets of BSE - Sofia

The requirements of POSA³ / Law on Public Offering of Securities/ led to the adoption of the new Rules of the BSE - Sofia after 2000 the securities market in Bulgaria experienced a number of changes. The most important of them that affect market structure and the adjacent segments of the exchange can be summarized in the following points:

- From 1997 to early 2000 on BSE - Sofia, there were two types of markets - registered and unregistered. Towards the registered were to: the official, the parallel, the temporary and bond market, and was only unregistered free market. Actually, these are secondary markets of stocks and bonds, where admission was carried out only for registered markets, but the main sales and purchases were made on the free market.

- In 2000, legal and economic status of the securities markets of the on the Bulgarian Stock Exchange changed. POSA stated that trading in securities could be made only on the regulated securities markets, which consist of two large groups - official and unofficial market. Besides them, on the exchange was allowed the existence of a primary, temporary and privatization markets. They have the right to trade all types of financial instruments. Therefore, in recent times, the regulated markets are primarily secondary but there's a chance of primary public offering as well as for trading not only with classic but with new financial instruments.

- With the changes in the laws and the Rules of Procedure of BSE of March 2012 on the Bulgarian capital market, the following markets and market segments are in action:

1. Basic market of the Bulgarian Stock Exchange (BSE)

- *Premium Equities Segment*
- *Standard Equities Segment*
- *Special Purpose Equities Segment;*
- *Bonds Segment;*
- *Collective Investment Scheme Segments;*
- *Compensatory Instruments Segment;*
- *Structured Products Segment;*
- *Subscription Rights Segment;*
- *Privatization Segment;*
- *Initial Public Offering Segment*

2. Alternative Market (Bulgarian Alternative Stock Market or BaSE)

- *Segment shares;*
- *Segment for companies with special investment purpose vehicles*

Requirements for admission to trading on the markets on BSE

Main market on the Bulgarian stock exchange (BSE), segment of shares

The main market of the BSE plays the role of an elite secondary market, which in European countries is called either official (Amsterdam, Lisbon, etc.) or first market (Paris, Brussels, etc.) on the stock exchange. Its goal is to be "screened" and admitted

³ POSA - Law on Public Offering of Securities.

to trading only the best financial instruments that meet the basic and additional conditions as well as quantitative and qualitative requirements.

Table 1. Requirements for admission to trading of shares on the BSE Main Market

Requirements	Segment shares „Premium”	Segment shares „Standard”
1. Period of admission of segment shares “Standard”;	1 year	
2. Completed financial years of the issuer	5 years	
3. Minimum percentage of the issue is held by minority shareholders or the total value of the shares held by such shareholders	25% 5 million levs	
4. Average monthly turnover in the issue of the stock market in the last 6 months	300 thousand levs	Larger than 4 thousand levs
5. Average monthly number of deals with the issue of the stock market in the last 6 months	150 deals	Larger than 5
6. Realized profit of the issuer during the last 5 financial years	2 of the last 5 financial years	
7. Obligation for applying the principles of the corporate management	yes	
8. The issuer is not in bankruptcy or liquidation	Not found	Not found
9. During the last 12 months the issuer has revealed the necessary information to the public	yes	yes
10. The issuer revealed through media of his choice regulated information, in English too	yes	
11. Dmission of emissions from alternative market	no	Yes, if the issue has a registered market maker

The basic conditions apply to all and usually they are concluded in the fact that company-issuers must comply with the law and should not be in the process of transformation, bankruptcy or liquidation.

More accurate the quantitative and qualitative requirements as they apply to each segment of the main market and for each type of financial instruments.

The main equity market is divided into two segments - "Premium" and "Standard". They correspond to the two elite markets in developed countries, which usually bear the names official and the secondary market for shares. The difference between them lies in the quantitative and qualitative requirements or criteria, which have to be met by the individual issues to be admitted to trading on the stock exchange. Naturally, it is required for segment "Premium" to be higher than those for segment "Standard".

Special Purpose Vehicles Segment

A special purpose entity is a joint stock company, which invests the funds raised through the issuance of securities, in real estate or in receivables (securitization of real estate and receivables)⁴. The Law on special purpose it is clear that these companies are limited and can perform only two types of activities⁵:

⁴ Cf. detailed at Art 3, paragraph 1 of Special Investment Purpose Companies Act (SIPCA).

⁵ Ibid, Article 4, Paragraph 1.

- raising funds through the issue of securities;
- purchasing real estate and real rights on real estate, doing construction work and improvements, with the purpose of providing them for management, giving them for rent or lease and their sale, or sale and purchase of receivables.

In recent years, due to privatization in Bulgaria, and because of the opening of the real estate market and land, the special purpose entities found an application and are enjoying the interest of the investors. These companies are attractive because investors do not fend for purchase of land or property from which to earn and are entrusting that in the hands of specialists for collective investment.

Quantitative and qualitative criteria for admission to trading of special purpose entities (SPEs) are the same as the share issue segment "Standard".

Bond Segment

Issues that meet the criteria as listed hereunder may be admitted to trading on the BSE Main Market, Bond Segment⁶:

- At least one (1) year remains until the maturity thereof;
- As at the moment of submission of the application, the unamortised value of the principal is not less than the equivalent of one million Bulgarian levs (BGN 1,000,000);
- The issuer thereof shall not be undergoing liquidation or insolvency proceedings.

On the main market segment bond is being admitted to trading corporate and municipal bonds⁷. The following quantitative and qualitative requirements apply namely for them. In Bulgaria, trading in government securities (GS) is carried out on auctions organized by the Ministry of Finance, the issuer using the intermediary-auctioneer BNB of dedicated auctions held by the BNB.

Collective Investment Schemes Segment

Within the meaning of § 1, art. 26 of the Supplementary Provisions of the Law on Public Offering of Securities Act (POSA), a **collective investment scheme** is an entity organized as an **investment company, fund of a contractual type or unit trust type** that invests in securities and money market instruments, and other liquid financial assets monetary resources raised through the offering of units or shares, which operates on the principle of risk spreading and at the request of shareholders, respectively of the shareholders, redeem its shares at a price based on the net value of its assets.

An investment company⁸ is a joint stock company whose main activity is to invest in securities and other liquid financial assets of the monetary resources raised through public offering of shares and which operates on the principle of risk spreading. An investment company is and every joint stock company, which raises funds through public offering of shares and whose investments in securities exceed 50 percent of the assets in its balance sheet for 6 months.

An investment company may be of open or closed type⁹.

An investment company of **open type** issues units or shares at any time, and its main feature is that the holders of the shares can sell them back to the fund at any

⁶ Article 8 of the Rules of Procedure of BSE, Part III Rules for admission to trading.

⁷ Krastev, Biser, Project financing and techniques, Ruse, Avangardprint, 2017.

⁸ Art. 164 of the POSA.

⁹ Assenova, M., Financial market, Plovdiv, 2014.

time, either on price, reflecting the net asset value of the fund adjusted with a fee for service.

An investment company of **closed type** has a fixed number of shares that are publicly traded. Its shares trade off once at its establishment. Its price is determined on the principle of demand and supply and may not reflect the net asset value, in which the Fund has invested.

A management company manages **the contractual funds**, which is responsible for all the activities of the fund. They are not separate legal entities. Their investors hold shares issued by the fund, when the fund is only of an open type.

POSA defines **the contractual fund** as a designated property for the purpose of collective investment in securities and other liquid financial assets of the monetary resources, raised through public offering of units, which is performed on the principle of risk spreading.

Unlike the investment company, **the investment fund is only of open type**. It is organized and managed by a management company. It is considered an issuer of shares, to which it is divided. Shares entitle the relevant part of the fund's assets, including the liquidation of the Fund, and the right of redemption. The management company that manages the contractual fund separates one property from another property and draws up a separate balance sheet. The management company of the contractual fund, similar to the investment company, has an open type and is required to announce the issue price and the redemption price of the shares based on the net asset value per share.

On the BSE Main Market, Segment Collective Investment Scheme **allows to trading only financial instruments issued by investment companies of open type mutual funds and unit trusts**. Financial instruments, issued by collective investment schemes cannot be admitted to another market or market segment¹⁰.

Compensatory Instruments Segment

On 2.09.2002, for the first time, on the BSE – Sofia, on the unofficial market was established the segment - "Compensatory Instruments Market". It began trading three types of listed issues, namely:

- **vouchers issued** under the Law on compensating owners of nationalized property (CONPA);
- **housing vouchers** issued under CONPA;
- **registered compensatory bills** issued under the Ownership and Use of Agricultural Land Act and the restoration of ownership of forests and forest lands.

The compensation instruments in the three forms listed occur in order to pay a certain reimbursement to citizens whose residential and agricultural property, businesses, land, forests have been taken without compensation by virtue of the conducted nationalization of 1947.

The Law on Transactions with Compensatory Instruments expressly dictates that their sale is performed on a regulated market of securities and under the terms and conditions of the Securities Act. On this basis, Bulgarian Stock Exchange - Sofia made its own rules for trade in compensatory instruments to stock exchange rules.

Later the segment "Compensatory Instruments Market" was separated from the unofficial market of the Stock Exchange and was established as a separate market. After the changes from 2012, this market is a part of the BSE Main Market and exists as a compensatory instruments segment¹¹.

¹⁰ Article 9, paragraphs 1 and 2 of the Rules of Procedure of BSE Part III Rules for admission to trading.

¹¹ Ibid, Article 10, paragraph 1.

Structured Products Segment

This is a new segment for the Bulgarian Stock Exchange. Under the name structured products are understood "warrants, certificates, and any financial instruments based on one or more other financial instruments, interest rates, indices, etc., transactions that can be concluded by means of delivery for exchange of cash payment"¹². In specialized literature, the instruments that have the character of a contract based on one or more financial instruments are referred to as derivatives. Usually they include options, futures, swaps, and these are some of the most used and yet speculative derivative instruments in the activities of developed stock markets.

Until 2012 in Bulgaria there was no trading with such type of instruments, although the exchange had the good intention and for this purpose it was foreseen the existence of a fixed market to be traded futures on it. This intention is not realized and therefore just now attempts are being made to develop this segment with listing of the first structured products such as warrants.

According to POSA a "warrant" means a security, which expresses the right to subscribe for a specified number of securities at a fixed or determinable issue price up to a certain period"¹³. Warrants are derivative instruments that are used in the primary market and entitle their holders to record a number of shares (so-called underlying asset) of the issuing company in return for the initial fixed price, called the strike price. Holders of the warrants may be shareholders or third parties. Each warrant entitles the holder to subscribe one share of the underlying asset and has the right to one vote at the meeting of the holders of warrants.

Subscription Rights Segment

Joint stock companies allow founders to acquire shares of new issues at prices lower than the market's prices. This is done on the basis of a certificate sent to each shareholder. Rights must be exercised within a specified period of time. They may not be exercised, i.e. be lost, but often **rights are the subject of sale**.

According to POSA "Rights are securities giving the right to subscribe for a certain number of shares in connection with the decision to increase the capital of a public company"¹⁴. Rights are also securities permitting their holders to the original recording and the acquisition of shares in process of issuing in a specific price within a specific period. The original holders of rights are always the shareholders of the company. The number of shares that can be recorded depends on the rights of the shareholders in the share capital. Rights are typical of public companies, including joint-liability companies with special purpose (SPEs). It is largely covered with the shareholders' right under Art. 194 Commercial Act - acquiring a part of a new issue in proportion to its shareholders until its increase. Feature of the SPEs is that with the initial capital increase its rights do not belong to the founders, but are offered for sale from an investment intermediary and with this the company becomes a public one and normally the number of the shareholders rises.

On the BSE Main Market Subscription Rights Segment allows to trading rights which entitle to subscribe for a number of newly issued shares in case the capital of a public company increases or if the capital of a number of other financial instruments increases¹⁵.

¹² Rules of Procedure of BSE Part III Rules for admission to trading, Additional provisions par. 2, p. 3.

¹³ POSA Additional provisions, paragraph 1, s. 4.

¹⁴ POSA Additional provisions, paragraph 1, s. 3.

¹⁵ Article 12 of the Rules of Procedure of BSE Part III Rules for admission to trading.

Privatization Segment

Native stock exchange a segment there is for trading in shares of companies that are still in the process of privatization. It is known that since 1990 in Bulgaria is being conducted a privatization process, which can be mass or cash. The majority of enterprises and banks had become private through cash privatization and the participation of the willing to acquire property in public auction. Another part of the enterprise was privatized through mass privatization, which took place in two stages. A small part of the remaining privatization companies for were available through the stock market. This is done with a special segment, which can be traded with money or compensatory instruments.

Initial Public Offering Segment

On this segment for the first time are sold emissions of various financial instruments. By the mid-twentieth century on the Western exchanges was not possible to perform an initial public offering of shares and therefore the stock exchange was seen only as a secondary securities market. After the 70s 80s gradually the largest stock exchanges introduce primary market. In Bulgaria, it also became possible, albeit slowly, for this process of primary emission trading to make its way.

On the BSE Main Market IPO Segment allows to trading financial instruments issues, which are offered for registration from their issuer or empowered investment intermediary, outside the occasions of assumption. It cannot be admitted the shares by the original capital increase of companies with special investment purpose¹⁶.

Alternative market – Bulgarian alternative stock market or BaSE

On the Alternative market there are two distinct market segments: Segment shares and Segment for companies with special investment purpose vehicles.

BaSE Market is designed for admission to trading on a regulated market share issues of public companies, including special-purpose vehicles that do not meet the minimum requirements for trading on the main market of the BSE. On the Alternative market are moved issues of shares of the companies that are in an open procedure for liquidation and bankruptcy. Prerequisite for moving the issue of shares of the company of the BaSE Market is also the failure to comply in the last 12 months with the requirement for disclosure of regulated information within the deadlines and methods defined in the applicable legislation.

To trading on a market BaSE allowed only issues of shares, including those issued by the special purpose vehicles that meet at least one of the following requirements:

- In the last six months the average monthly turnover of transactions concluded on the Exchange is not greater than 4000 lev;
- In the last six months the average number of contracts on the Exchange is not greater than 5;
- In the last 12 months, Issuer has not revealed the terms set out in the applicable law governing the information through a news agency and other media that can provide effective dissemination of regulated information to the public;
- Open a procedure of liquidation or bankruptcy of the issuer.

It is not possible listing on the Alternative Investment Market of the issue, which has not previously been admitted to another market or segment. Admission to trading on a market BaSE is carried out only through official transfer of the issue by the BSE.

¹⁶ Ibid, paragraph 13, s.1 and 2.

A special module to the system of exchange does conclusion of transactions.

From the statement it appears that regardless of the stock exchange to all of them there is a system of rules and special order in which it registered securities. The Exchange does not allow random financial instruments to trading, especially the main market is the safe guard against manipulation and unfair transactions.

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