REGULATION OF SECURITIES MARKETS

- EVOLUTION OF POLISH CAPITAL MARKET

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1. IOSCO Principles

2. Essential elements of capital markets

3. The case of the Polish market
1. IOSCO Principles

- Three objectives of securities regulation
- Principles Relating to the Regulator
- Principles for Issuers
- Principles for Collective Investment Schemes
- Principles for Market Intermediaries
- Principles for the Secondary Market
Three objectives of securities regulation

- the protection of investors
- ensuring that markets are fair, efficient and transparent
- the reduction of systemic risk
Principles Relating to the Regulator

- comprehensive inspection, investigation, surveillance and enforcement powers
- operationally independent and accountable in the exercise of its functions and powers
- adequate powers, proper resources and the capacity to perform regulator’s functions and exercise its powers
- the staff of the regulator - the highest professional standards including appropriate standards of confidentiality
Principles for Issuers

- full, timely and accurate disclosure of financial results and other information that is material to investors’ decisions
- holders of securities in a company - treated in a fair and equitable manner
- accounting and auditing standards - high and internationally acceptable quality
Principles for Collective Investment Schemes

- the regulator sets standards for a collective investment scheme
- the regulator provides rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets
- the regulator should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a collective investment scheme
Principles for Market Intermediaries

- minimum entry standards
- initial and ongoing capital
- procedures for dealing with the failure of a market intermediary
Principles for the Secondary Market

- the establishment of trading systems including securities exchanges and systems for clearing and settlement of securities transactions - subject to regulatory authorization and oversight
- ongoing regulatory supervision of exchanges and trading systems
- transparency of trading
- regulation - designed to detect and deter manipulation and other unfair trading practices
2. Essential elements of capital markets

- Features that attract issuers
- Features that attract investors
- Incentives that should be employed by exchanges
- Incentives that should be employed by financial intermediaries
Essential elements of capital markets

Features that attract

- issuers:
  - effective and relatively cheap source of capital
  - publicity
  - possibility of financing risky business
  - investors
Essential elements of capital markets

Features that attract

- investors:
  - protection of shareholders’ rights
  - fair treatment of all shareholders
  - accurate disclosure information
  - good investors relations
  - issuers
  - market meeting international standards
Essential elements of capital markets

Incentives that should be employed by exchanges:

- creation of efficient and effective trading system
- relatively low transactional costs
- safety of conducted transactions
- protection against unfair practices
Essential elements of capital markets

Incentives that should be employed by

- financial intermediaries:
  - high standard and quality of conducted activities
  - development of mature procedures and mechanisms
  - safety of conducted transactions

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3. The case of the polish market

- Dormant market
- Manipulated market
- Speculative market
- Mature market
Evolution of Polish capital market

- In the process of growth of Polish capital market four stages of development can be specified:
  - Dormant market
  - Manipulated market
  - Speculative market
  - Mature market
Dormant market

- the characteristic feature of the dormant market is that investors are not interested in capital market at all

- in Poland it began at the end of the year 1990, along with the privatisation by public offerings and lasted till the beginning of 1992 - WIG = 937 (I.1992)

  the market did not attract much attention both abroad and at home and number of opened investment accounts was incredible low
Dormant market

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Manipulated market

- the main feature of this stage of the growth is that decisions of investors are as much significant for the market, as they can not only influence the market prices, but also determinate short-term trend on the market
- in Poland it occurred in 1992 - WIG = 1041 (XII.1992)
  - the size and the depth of the Polish market were not appropriate for the investment potential of investors
Manipulated market

WARSZAWSKI INDEKS GIEŁDOWY

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Speculative market

- the main feature of this stage of the growth is that the market is dominated by speculation
- in Poland it began in 1993 and lasted till the beginning of 1996
  - II 1993 (WIG = 1083,1) - IV 1994 (WIG = 14 236,9): unnatural growth generated mainly by domestic investors
  - IV 1994 (WIG = 11 020,3): price slump on WSE
Speculative market

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Mature market

- in 1996 arose symptoms that the market entered into this stage of development and it lasts up to now
  - its solid legislative and economic foundations are still developed
- the "mature market" does not only mean the mature capital market but also modern stable free market economy, acting in a transparent and stable political structure
Mature market

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Development of Polish capital market in numbers

- WIG index:
  900 points in 1991 - 20 820 points in 2003

- number of companies in public trading:

- market capitalisation of WSE:

- turnover on WSE:
Development of capital market’s legislation

- The first ever act on public trading in securities and trust funds was passed in 1991 and amended in 1993

- A new law on the public trading of securities and a separate act on investment funds was passed in 1997. Several amendments in the following years

- The continuous harmonisation with the EU legislation (e.g. a new act on investment funds is being prepared in the parliament at the moment)
Warsaw Stock Exchange Index WIG and capitalisation of the WSE

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Turnover at the WSE and number of companies listed

TURNOVER AT THE WARSAW STOCK EXCHANGE [mln USD]

NUMBER OF COMPANIES LISTED ON THE WSE

Source: PSEC

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### Number of investment accounts and number of brokerage houses

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<th>Year</th>
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**Source:** PSEC

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Number of investment funds and value of their net assets

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Number of pension funds and value of their net assets

Number of pension funds

Value of net assets of pension funds [mln USD]

Source: PSEC

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Central Table of Offers Index ITO and capitalisation of the CTO

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Turnover at the CTO and number of companies listed

Turnover at the Central Table of Offers (in million USD) cumulated from the beginning of the calendar year

Number of companies listed on the CTO.

Source: PSEC

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