



## INTERVIEW WITH GEORGI I. BYLGARSKI PUBLISHED IN WWW.WALL-STREET.RO

1. Recently, the Bulgarian Government has entrusted the Privatization and Post-Privatization Control Agency with the preparation and the organization pertaining to the privatization of 50.05% in the capital of Bulgarian Stock Exchange. The privatization procedure provides for the bundle sale to a single strategic investor of the government stakes in the Bulgarian stock exchange and the Central depository. What does this step mean for *Bulgarian Stock Exchange - Sofia* (BSE-Sofia)?
  - The Bulgarian Government has taken this important step toward privatization of its 50.05% stake in *Bulgarian Stock Exchange - Sofia* and 43.70% of *Central Depository*, as a consequence of its understanding that the future of the Bulgarian capital market lies within its integration with a leading market operator. This has been a long process which started in the winter of 2010 with the election of the new Board of Directors of the Exchange. BSE-Sofia and the Ministry of Finance have launched a strategy at the purpose of which is to gain majority in the shareholding structure, optimize the operations, improve the top-line and launch the privatization procedure, and the strategy has been successfully implemented. Additionally, BSE-Sofia has acquired 6.61% in the capital of *Central Depository* in order to ensure a full control of 50.31% to the prospective strategic investor in the Depository. Now it is up to the Privatization and Post-Privatization Control Agency to execute the deal in the best interest of the Ministry of Finance and the Bulgarian capital market.
2. What important changes do you expect to be seen after the privatizations?
  - We do not see the privatization as a heal-all. However, over time we expect that, together with the market participants and the new shareholder, we will be able to improve the post-trading infrastructure and, starting from there, to introduce new instruments to the cash market, as well as a derivatives market. Attracting experienced foreign brokers and investment bankers would foster the product range and improve liquidity.
3. It is known that in the region, both Warsaw Stock Exchange and Vienna Stock Exchange are watching for new opportunities, in order to follow their expansion policies. In your opinion, which of those 2 stock exchanges will be the perfect partner for BSE-Sofia?
  - We, as a stock exchange, are the object of privatization, not the subject. Therefore, I need to mention that we are not in the position to choose the strategic partner for BSE-Sofia. Furthermore, there would be more than 30 exchanges worldwide that would meet the stringent requirements of the Ministry of Finance. My perfect match would be the exchange which could foster the development of the capital market in Bulgaria with experience and know-how, by understanding that Bulgaria offers an excellent geographic, business and political conditions for regional expansion.
4. What kind of strategic partner is searching the government for the stock exchange? Does it need to be an important name in the region or emerging markets or they are also looking for a big stock exchange, like NYSE or London?



- The quantitative and qualitative requirements set towards the prospective candidates include at least EUR 2 billion total average monthly turnover on the capital instruments' spot market for the period January 2010 – December 2011, and/or a total average monthly number of derivative contracts on the markets of at least 20 million for the same period, where only those transactions effected through an electronic trading platform are to be considered. Thus, the requirements for the strategic acquirer of BSE-Sofia are set rather high, leaving only the most advanced exchanges in the competition, which is telling of the Government's desire to have a really advanced partner for both BSE-Sofia and Central Depository.
5. Will Bulgarian Stock Exchange develop organic or as a part in a financial group in region?
    - Preferably, as a part of a large stock exchange group.
  6. Last year, the government announced privatization of the Government stakes of 33%, through listing of the Bulgarian subsidiaries of E.ON, CEZ and EVN. When will these companies be listed?
    - The companies of EVN – Bulgaria have already been privatized through Bulgarian Stock Exchange – Sofia, gaining further 18% over the minimum price required by the Government and revealing the efficiency of the on-exchange privatization. However, the highest bidder of the issue has been the majority shareholder, outbidding the rest of the market participants and leaving their orders behind. The privatization of the government stakes in the Bulgarian entities of CEZ and E.ON are on the agenda for year 2012.
  7. What other companies do you intend to bring to the stock market?
    - Over the past two years, we have presented in one-on-one meetings the opportunities arising from equity financing to the top 20 companies that we consider beneficial for the development of the capital market, whilst also explaining the benefits for the companies themselves. However, these companies and their consultants have deemed the moment not quite appropriate in view of the business cycle we are in. Apart from the aforementioned government offerings, I guess we will see few new public companies in 2012, although we are aware of some projects for IPOs in the pipeline.
  8. In Romania, many entrepreneurs or private managers are not very comfortable with the idea of listing their businesses. Do you have the same problems in Bulgaria?
    - Financing through the capital market requires financing opportunities on the investors' side and transparency on the business side. The fear of transparency, of having someone else sitting on your board, of a minority shareholder asking questions at the AGM is not very attractive idea for many business leaders. Notwithstanding, when possibilities for debt financing dry up and possibilities for equity financing flourish, the desire to develop one's business overtakes the minuses of being public. The fact is that the abundance of equity investors is still a desire, which is the main reason for the sluggish increase of the public companies. However, this is apparently an issue not only in Bulgaria but in the region as a whole.
  9. After the golden years, when the Bulgarian Stock Exchange's volumes were higher than the Bucharest Stock Exchange's, now your volumes are much lower. How do you plan to change that? Will this privatization help?



- If we compare the decline of the leading index SOFIX to the decline in the turnover, we can ascertain that these quantities have commensurate magnitudes. In order to increase the awareness of the Bulgarian capital market, we held a series of presentations last year in Vienna, Zurich, London and Frankfurt. As we continue to believe that our capital market offers unique investment opportunities, we are currently planning similar events in the Nordic countries, which have traditionally proven active portfolio investors. Moreover, led by our desire to meet the requirements of the foreign investors, we have decided to extend our trading hours until 5:00 pm Eastern European Standard Time (EET), which will allow not only the investors from London, but also those from New York, who are interested in the Bulgarian capital market to execute their investment strategies ad hoc.
- 10.** What is the relationship with Bucharest Stock Exchange, at this moment? Last year, you have signed a memorandum of understanding with serious plans for the next months. Since then, the CEO of BVB was changed as well as the board of directors. Did you continue discussing and working with the new board of directors of BVB?
- Our exchanges have traditionally had excellent relations. As you have correctly mentioned, last year we signed a Memorandum of Understanding. The first step was to establish full interconnectivity between the two depository institutions, which - as far as I am informed - is fully, technically operational and the administrative and regulatory process is about to be completed very soon. I know that our colleagues from both depositories have been working hard and in close cooperation in order to ensure the completion of the interconnectivity in due course. We hope to meet soon with the new management of the BVB and discuss the continuation of our plans.
- 11.** Do you have any signals that Bucharest Stock Exchange could be interested in the Bulgarian Stock Exchange privatization?
- Having in mind the stringent requirements set forth by the Ministry of Finance towards the majority shareholder in BSE – I am afraid that BVB will not meet the current requirements for at least EUR 2 billion total average monthly turnover on the capital instruments' spot market.
- 12.** At the end of this year, BVB's board has been changed. Do you know who are the new members of the board, the new president; have you had discussions with them?
- We have received from BVB the update regarding the election of the new Board of Directors. Having in mind it takes time for a new board to become fully operational, we would be happy to meet Mr. Lucian Anghel, the respected board members and the new CEO/General Manager (when elected), at their convenience. Why not announce the interconnectivity of the two depositories (when fully operational) by opening the trading session in Sofia together?
- 13.** How do you expect to continue this partnership between BVB and BSE-Sofia? Shall we see double listings, common indexes or common financial tools?
- BSE-Sofia and BVB have exchanged letters confirming the continuation of the projects for double listings, common indexes and common financial instruments, therefore, we hope to have these projects, which we started jointly with Mr. Valentin Ionescu, continued and completed successfully for the benefits of both capital markets.
- 14.** Where do you see Bulgarian Stock Exchange in 5 years?



- A leader, integrating some of the regional markets under the umbrella of a well-developed market operator.
- 15.** Name 3 important things that Bulgarian and Romanian Stock Exchanges should do in the next year, in order to raise and develop to the next level?
- Firstly, we should develop strong regional partnerships in order to make our markets much more visible to foreign investors. Secondly, together with our members we should introduce an even broader range of financial instruments, aiming at improving liquidity and attracting more sophisticated investors. Last but not least, by introducing a solid market infrastructure, we should work hard to attract new issuers and new investors to the region in order to foster liquidity in a sustainable manner.

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