



INTERVIEW WITH MR.IVAN TAKEV, CEO OF THE BSE, PUBLISHED IN THE MONTHLY NEWSLETTER OF UNICREDIT GLOBAL SECURITIES SERVICES

THE BULGARIAN STOCK MARKET HAS BEEN IN THE LIMELIGHT OVER THE LAST COUPLE OF MONTHS. TOWARDS YEAR-END IT HAS BECOME A PUBLIC COMPANY AND CONDUCTED A SUBSTANTIAL CAPITAL INCREASE. A SIGNIFICANT INCREASE IN TRADING VOLUME FOLLOWED. THE UNICREDIT GSS NEWSLETTER MET IVAN TAKEV, CEO OF THE BULGARIAN STOCK EXCHANGE-SOFIA.

What is your explanation for the recent rise in trading activity on the BSE Sofia? Is confidence coming back to the market after all?

Indeed, trading activity has significantly increased over the last months, and the indices surged by more than 30% as well. However, the liquidity is still quite far from what we had observed three or four years ago. In my view the increase is mainly compensation in comparison to the remaining markets in the region. Over the last two years we had fallen behind most European and regional exchanges, and a catch-up was pretty much expected due to the accumulated growth potential of the local market. Anyway, as long as the listed companies have not yet announced their final annual results, I believe that more upwards or downwards moves can be expected in spring.

But real economy as well as statistics indicates that the worst of the financial crisis is already behind us. I believe that this will be truly reflected on micro-level, namely by the results of the individual companies.

Did the going public of the Stock Exchange achieve its goal? What has changed in the perception and the performance of the company since then?

Actually, the listing was one step out of a series of measures we undertook in 2010. The first one was to increase the Government's shareholding from 44 up to 50 plus percent, in order to increase the bargaining power of the Government in the future privatization process. The listing was the second step. We wanted to

state a good example to all non-public companies that a listing during a financial crisis is not necessarily a corporate suicide. Our company liquidity now is much better than with other companies of the same size.

However, liquidity was not the main idea behind the decision to list. Interestingly, although we did not expect tremendously active trading, the Stock Exchange meets the criteria for inclusion into one of our indices with only one month of trading history. We also provided the necessary evaluation mechanism in order to obtain a fair market price, which can serve as a benchmark in the future privatization process. So I definitely may say that we have achieved our goal.

The market had heavily discussed the capital increase, fearing that it might lead to dilution. Was there any ground for such worries?

There was, indeed, a minimal dilution of 10%, but this was actually the price for the increased bargaining power of the Government. And I believe this was acknowledged by our shareholders, because they voted in favour of the dilution.

Now, that the BSE-Sofia is listed, a further privatization has become more realistic. Is there any news you can share with us?

Well, the first and the second step have been made. More information is about to come from the Bulgarian Privatization Agency, who is responsible for all privatization deals in Bulgaria. My personal expectations are that this procedure will be officially kicked off in April or May.

You have been running the Xetra trading system for a couple of years now. Does the use of this system narrow your scope of potential strategic partnerships?

Not necessarily. We don't look at strategic investors in terms of their trading systems. We are open to all well functioning market operators in Europe and around the world. So Xetra is not a prerequisite or a factor that should be put into question when we talk about our own privatization.

Speaking about Xetra, we certainly have to touch upon the CEE Stock Exchange Group under the lead of the Vienna Stock Exchange. Can you imagine becoming a part of this network?

The CEESEG has announced earlier that it is interested in a possible participation in the privatization process here in Bulgaria. Still, we have no preferred partner in that process.

At the other end, we have the Warsaw Stock Exchange, which is also busy building its alliances. Would Warsaw be an option?

All well functioning exchanges, including Warsaw, are options for us.

The Bulgarian and the Macedonian Stock Exchanges have recently entered cooperation. How do market participants benefit from this information exchange?

In the meantime this project has widened its scope towards Serbia and I suppose that more exchanges are about to join. We are in talks with a number of potential partners in the region with the aim of creating unified market data for all of these markets. Our ultimate goal is to unify the look of the entire market - easily comparable and presented on the websites of all the exchanges. When a London-based investment professional covering the region tries to compare the markets he will have all of the necessary data and get the full picture of the Balkan market. The significance of that project will increase as more exchanges join.

Are there any other initiatives from BSE Sofia to attract new issuers?

Yes, we focus on attracting both new investors and new issuers. We have just completed a massive research on non-public companies in Bulgaria, which we deem interesting for individual as well as institutional investors. We managed to analyze more than 100 companies and subsequently short-listed 17 there from. In the meantime we have already started meeting with these companies with the aim of convincing them that listing on the stock exchange is not a bad idea even during a financial crisis. Some of those companies were quite familiar with the stock market, others were relatively inexperienced. But my belief is that some new companies might be expected in late 2011 and next year.

Investors are keen to see the large-scale privatizations on the BSE Sofia, mainly from the energy sector, which have been publicly announced. When will they occur?

The first privatization in the energy sector will be officially announced in the next few weeks. I am talking about EON Bulgaria, one of the three energy distribution companies in Bulgaria. The Government holds a 33% stake and plans to list it on the Stock Exchange. The company didn't object, so all necessary prerequisites are in place and so we would only have to go through the listing procedure. As long as such privatizations are deemed to be a driving force behind the further development of the capital market – as they were in 2004 and 2005, this process will have to be finalized and there has to be the political will to support it.

As of the beginning of 2011, the BSE Sofia has adopted a new tariff scheme. How has it been accepted by market participants? What are the expected effects?

We implemented a completely new fee structure, with changes not only concerning the issuers but also transaction fees. In terms of the annual listing fees we have introduced a charge that is based on the market capitalization and is valid for all companies irrespective of the market segment. This has brought more fairness among equally sized companies. In terms of trading fees, we have implemented a minimum transaction fee of 1 leva (approx EUR 0.50) per executed order, but at the same time we lowered the variable fee from 8 to 7.5 basis points, and in some cases to 6.5 basis points. The main reason for this change was the fact that the average transaction volume was so low that we actually were losing money on most of the executed orders. It is quite obvious that we could not allow this to continue. By doing this, we have encouraged all the investors, primarily individual investors, to trade larger chunks, and to trade them at approximately the same cost – since the minimum fee can be easily compensated this way. Trading in larger blocks automatically means higher liquidity in the order book, which was our intention.



Are there any new products the BSE Sofia is currently developing? How do you anticipate the Central Depository to support these?

Introducing new products is one of the cornerstones of our strategy announced one year ago. I hope that some new instrument types will come to the market until the end of the first half-year. I primarily think of structured products, where the problem so far was that no one was inclined to issue such instruments because of the low liquidity of the underlying assets. But given the improvement of liquidity I am sure that these specific instruments will become attractive from the perspective of both issuers and investors. And as long as structured products will be traded just like shares, there will be no technical problem with the Central Depository to list them and settle those trades.