

Organisation and operation of the Romanian capital market

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Abstract: The European exchanges are in a development process that means consolidation through mergers and acquisitions and also, innovation of structured and derivatives products. The Romanian capital market has a marginal position on European continent because of its small dimensions and modest offer of derivatives products. Some steps have been made in the development process in Romania, but some measures must be taken in the future: the launch of commodities derivatives, the calculation of new stock indices and mergers between the Romanian exchanges.

Key-words: capital market, exchange, derivatives, innovation, crises.

1 The European exchanges – general presentation

At European level, over 40 exchanges are established. The most important European exchanges are members of Federation of European Securities Exchanges (FESE) and some of them are members of World Federation of Exchanges. Many of these exchanges have a long tradition in financial field. For example, Deutsche Borse was established in 1585, Wiener Borse in 1771 and other exchanges like Bolsas Y Mercados Espanoles, Athens Exchange and Oslo Borse were set up in 19 century. The exchanges from Central and Eastern Europe are younger because they were established after the transition to the market economy.

The European exchanges have two segments: the spot market and derivative market with some exceptions: at London Metal Exchange and ICE Futures Europe only derivatives contracts are available; Luxembourg Stock Exchange, Cyprus

Stock Exchange, The Irish Stock Exchange and Malta Stock Exchange offer only spot contracts.

The European exchanges are major players at international level but the intense competition with American and Asian exchanges have determined waves of mergers and acquisition and the establishment of six exchange groups on the European continent:

- SIX Group (1993) operates in Switzerland, United Kingdom and Germany;
- NYSE Euronext (2006) is active in Belgium, France, Netherlands, Portugal, United Kingdom and United States of America;
- NASDAQ OMX Group (2008) activate in Armenia, Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Sweden and United Kingdom;
- London Stock Exchange Group (2001) operates in United Kingdom and Italy;
- Deutsche Borse Group (1001) is active in Austria, Finland, Germany< Ireland, Switzerland and United States of America.

Table 1 The main economic figures of European exchanges groups in 2007

	Revenues (EURO thousands)	Costs (EURO thousands)	Net income (EURO thousands)	Number of employees
Deutsche Borse Group	2,664,500	1,323,500	911,700	3,281
London Stock Exchange Group	946,589	459,666	297,548	1,210
NASDAQ OMX Group	464,000	299,000	106,000	2,492
NYSE Euronext	2,993,027	2,338,707	462,847	3,083
SIX Group	323,119	147,359	147,847	440

Source: European Exchange Report 2007, Federation of European Securities Exchanges, November 2008, http://www.fese.be/lib/files/EUROPEAN_EXCHANGE_REPORT_2007.pdf

Table 2 Market capitalization of European exchanges

Exchange	2007 (USD millions)	2006 (USD millions)	Change %	No of listed companies		
				Total	Domestic companies	Foreign companies
Athens Exchange	264,960.8	208,256.1	27.2%	283	280	3
BME Spanish Exchanges	1,799,834.0	1,322,915.3	36.1%	3,537	3498	39
Borsa Italiana	1,072,534.7	1,026,504.2	4.5%	307	301	6
Budapest SE	46,195.6	41,934.5	10.2%	41	39	2
Cyprus SE	29,474.3	16,157.8	82.4%	141	141	0
Deutsche Börse	2,105,197.8	1,637,609.8	28.6%	866	761	105
Euronext	4,222,679.8	3,712,680.8	13.7%	1,155	930	225
Irish SE	143,905.3	163,269.5	-11.9%	73	60	13
Ljubljana SE	28,794.0	15,180.7	89.7%	87	87	0
London SE	3,851,705.9	3,794,310.3	1.5%	3,307	2,588	719
Luxembourg SE	166,077.9	79,513.6	108.9%	261	34	227
Malta SE	5,633.4	4,503.5	25.1%	16	16	0
OMX Nordic Exchange	1,242,577.9	1,122,705.0	10.7%	851	825	26
Oslo Børs	353,353.1	279,910.4	26.2%	248	208	40
Swiss Exchange	1,271,047.7	1,212,308.4	4.8%	341	257	84
Warsaw SE	211,620.2	151,809.0	39.4%	375	352	23
Wiener Börse	236,448.4	199,121.0	18.7%	119	102	17

Source: <http://www.world-exchanges.org/statistics/annual/2007/number-listed-companies>
<http://www.world-exchanges.org/statistics/annual/2007/domestic-market-capitalization>

These financial groups offer spot and derivatives contracts on traditional and innovative assets. All groups are set up as joint stock companies (for profits) and they are listed on exchange (the exception is SIX Group). Indicators like turnover, market capitalization, number of derivatives contracts traded, net income and number of employees prove their huge dimensions.

Taking in account the number of employees and financial results, these financial groups could be considered real „factories”. The exchanges groups are the main actors on spot market, because of the

important number of listed companies. The main European exchanges have competitors from America or Asia, such as New York Stock Exchange, NASDAQ, Korea Stock Exchange, Shanghai Stock Exchange or Hong Kong Stock Exchange.

Their force is due to the big number of listed companies from national market or from abroad.

For example, London Stock Exchange is the leader on the international capital market, because many foreign companies have decided to be listed on this exchange.

Table 3 Total value of share trading (USD millions)

	2007	2006	Relative change
Athens Exchange	168,665.2	107,893.0	56.3%
BME Spanish Exchanges	2,969,519.1	1,933,793.4	53.6%
Borsa Italiana	2,312,534.3	1,591,187.8	45.3%
Budapest SE	47,689.4	31,157.7	53.1%
Cyprus SE	5,109.9	3,703.6	38.0%
Deutsche Börse	4,324,928.4	2,737,195.3	58.0%
Euronext	5,639,760.7	3,853,321.4	46.4%
Irish SE	136,936.2	81,669.4	67.7%
Ljubljana SE	4,495.6	2,049.7	119.3%
London SE	10,333,685.9	7,571,698.6	36.5%
Luxembourg SE	278.7	263.8	5.7%
Malta SE	89.0	259.4	-65.7%
OMX Nordic Exchange	1,864,668.1	1,332,369.5	40.0%

Oslo Børs	548,106.9	405,877.9	35.0%
Swiss Exchange	1,886,309.6	1,396,533.6	35.1%
Warsaw SE	88,096.8	56,372.9	56.3%
Wiener Börse	130,065.3	82,049.1	58.5%
WFE Total	101,189,135.2	70,034,329.8	44.5%

Source: <http://www.world-exchanges.org/statistics/annual/2007/total-value-share-trading>

Regarding the value of share trading, the leaders on the European continent are London Stock Exchange, Euronext and Deutsche Börse. At international level, the first two places are occupied by American exchanges: New York Stock Exchange with a trading value of USD bn 29,909 and NASDAQ with a trading value of USD bn 15,320. Derivatives market is very important for the development of companies, because derivatives contracts are used for speculation and hedging purpose.

For this reason, it is a tough competition between OTC markets and exchanges in order to offer different types of derivatives. The derivatives traded on exchanges have a major advantage: standardization. Because of this reason, the transactions are concluded fast. But this aspect could be a drawback because the offer of exchanges is limited for some assets that could be standardized.

For example, only some raw materials are traded on commodities exchanges and important currencies and securities are used as underlying assets for futures and options.

The derivatives universe is broad and over 1700 different derivatives are traded on three major derivatives exchanges: Chicago Mercantile Exchange Group, Euronext and Eurex. Taking in account the underlying assets of derivatives contracts, the derivatives market has four segments:

- securities derivatives (the underlying assets are shares, bonds and indices)

- currencies derivatives (only the major currencies are used as underlying assets for futures and options)
- commodities derivatives (futures and options on commodities are the first derivatives contracts traded on exchanges);
- innovative derivatives (this sector is in development on major exchanges that try to launch futures and options contracts on 'exotic' assets like weather, real estate or economic events).

According to the data published by Futures Industry Association, the most important assets for derivatives contracts are equity index, shares and interest rate.

In 2007, over 15 bn of derivatives contracts were concluded and over 85% of these contracts used as assets stock, indices and interest rate.

Other important assets used are agriculture products, energy, foreign currencies and metals. At international level, the most important exchanges in terms of futures and options volume are Chicago Mercantile Exchange Group, Korea Exchange, Eurex, Euronext and Chicago Board Options Exchange.

The innovative process is intense at European exchanges and new products like exchange traded funds (ETFs), exchange traded commodities (ETCs) or warrants are considered common assets for local or foreign investors.

Table 4 Dimensions of European derivatives market

Exchange	Stock/index		Bonds		Currencies	
	Notional turnover (EURO millions)	Contracts traded	Notional turnover (EURO millions)	Contracts traded	Notional turnover (EURO millions)	Contracts traded
Budapest SE	13,497	5,481,148	-	-	254	13,249
Warsaw SE	93,302	9,891,264	52	1,947	-	-
NYSE Euronext	12,467,255	417,806,991	441,485,032	517,932,820	121,172	12,783,848
Deutsche Borse Group	39,999,997	1,128,084,836	84,193,692	771,728,264	-	-

Source: European Exchange Report 2007, Federation of European Securities Exchanges, November 2008, http://www.fese.be/lib/files/EUROPEAN_EXCHANGE_REPORT_2007.pdf

For example, because of the advantages offered by exchange traded funds (ETFs), in 2008, the transactions' value for these securities have increased at the most important European and American Exchanges meanwhile the value of shares' transactions have cut down.

In Central and Eastern Europe, the derivatives market is at an incipient stage. Out of six exchanges that are members of Federation of European Securities Exchange, only two exchanges offered derivatives contracts at the end of 2007: Budapest Stock Exchange and Warsaw Stock Exchange. The position of these exchanges is modest, as compared with exchanges like NYSE Euronext or Deutsche Borse Group.

2 The Romanian spot market

The Romanian capital market has two sectors: the spot segment and the derivatives segment. The set up of the spot market is related to the privatization process initiated after the Revolution in 1989. As compared to other Eastern and Central European markets, the Romanian capital market was established later, due to some technical problems. For example, Ljubljana Stock Exchange was set up in 1989; 1990 was the year of establishment for Budapest Stock Exchange; Warsaw Stock Exchange, Bulgarian Stock Exchange and Bratislava Stock Exchange were established in 1991.

In Romania, in the first state, through privatization process, the population received vouchers (property certificates) at state owned companies. In order to assure the set up and development of capital market – an important institution of market economy, these vouchers were transformed in shares that could be traded on the free market. Law no. 58/1991 regarding the privatization of state owned companies imposed the emergence of the capital market and related legislation to allow trade, in an organized manner,

of these securities. Although the deadline imposed for adopting the law of securities and stock exchanges was 6 months, this law (no. 52/1994) was elaborated in time for the Government, but it was approved by Parliament until after 2 ½ years, in 1994. For these reasons, the Bucharest Stock Exchange was set up in 1995 and, for many years, only spot contracts on shares were available. At the beginning, only six Romanian companies were listed on BSE. The majority of the Romanian companies included in Privatization process have been quoted on RASDAQ – an electronic market established after NASDAQ model – because the listing conditions are permissive.

The information technology has allowed the "burning" of some development's stages of stock exchange activity in our country and the alignment with the practices of major European and American stock exchanges. Initially, BSE made transactions in the classical system by brokers meeting in the pit; in the present, transactions are conducted in the electronic system. The RASDAQ market, since its establishment, has been an electronic market.

The competition between exchanges is very strong and the investors are sophisticated. For these reasons, the consolidation process is intense in this field and mergers and acquisition between exchanges take place often. In 2005, BSE and RASDAQ merged and from that time on, RASDAQ has been a segment of BSE and Bucharest Stock Exchange has organized as joint stock company. The officials from the Monetary-Financial and Commodities Exchange from Sibiu and the Bucharest Stock Exchange had negotiated a merger between the exchanges but this consolidation did not happened.

The development of BSE was slow, but we remark a steady increase of turnover and market capitalization until 2007. In 2008, the international financial crises have consequences on the Bucharest Stock Exchange's activity.

Table 5 The main indicators of Romanian equity market

	Number of shares traded	Value of shares traded (Euro)	Market capitalization (Euro)	Listed companies
1995	42,761	N/A	N/A	9
1996	1.141,648	N/A	N/A	17
1997	593,893,605	N/A	N/A	76
1998	986,804,827	N/A	N/A	126
1999	1,057,558,616	84,067,123.50	313,001,203.00	127
2000	1,806,587,265	93,244,168.02	450,512,639.00	114
2001	2,277,454,017	148,544,838.94	1,361,079,746.00	65
2002	4,085,123,289	222,426,577.20	2,646,438,376.00	65
2003	4,106,381,895	268,641,352.35	2,991,017,082.27	62

2004	13,007,587,776	598,072,158.14	8,818,832,158.26	60
2005	16,934,865,957	2,152,052,959.75	15,311,354,557.93	64
2006	13,677,505,261	2,801,708,287.54	21,414,911,687.06	58
2007	14,234,962,355	4,152,436,338.24	24,600,746,687.06	59
2008	12,847,992,164	1,895,443,665.28	11,629,766,297.39	68

Source: www.bvb.ro

Table 6 Dimensions of equity market in Central and Eastern Europe

Exchange	Shares		ETFs		UCITs	
	Turnover (EURO millions)	Listed companies	Turnover (EURO millions)	Listed companies	Turnover (EURO millions)	Listed companies
Bratislava SE	22	160	-	-	NA	43
Bucharest SE	1990	54			2091	5
Budapest SE	34610	41	32	1	42	90
Bulgarian SE	4621	369	-	-	12	49
Ljubljana SE	3382	87	1	1	229	9
Warsaw SE	63876	375	-	-	99	37

Source: European Exchange Report 2007, Federation of European Securities Exchanges, November 2008, http://www.fese.be/lib/files/EUROPEAN_EXCHANGE_REPORT_2007.pdf

The exchanges from the Central and Eastern Europe are more developed than the Romanian Stock Exchange, taking into account the number of listed companies, turnover or market capitalization.

From this region, only six exchanges are members of the Federation of European Securities Exchanges and only for these institutions we have consolidated data.

The leaders on the equity market are Budapest Stock Exchange and Warsaw Stock Exchange. Bucharest Stock exchange has small dimensions, but we remark the importance of the UCITs sector on the equity market. As far as the Romanian exchange is concerned, five financial investment companies are listed. According to the European financial legislation, the shared issued by these companies are named UCITs (Undertakings for Collective Investment in Transferable Securities) and they are regulated by the European UCITs Directives that allow collective investment schemes to operate throughout the European Union on the

basis of a single authorization from one member state. These five companies or investment funds were established in 1996, on the basis of former Private Property Funds set up in the Privatization Program. Because these investment funds have shares from many Romanian companies, the institutional and individual investors are interested in shares issued by them.

For this reason, on the Romanian market, the shares of financial investments companies are blue chips and generate important transaction on Bucharest Stock Exchange.

As compared with other exchanges from Central and Eastern Europe, the Romanian bonds market has small dimensions as concerns the numbers of listed bonds and turnover. Some reasons for this situation are: the main financing method for Romanian companies and institutions is banking loan. Taking into account the turnover of the bonds market, the most important exchange from Central and Eastern Europe is Bratislava Stock Exchange.

Table 7 Dimensions of bonds market in Central and Eastern Europe (2007)

Exchange	Turnover (EURO millions)	Listings
Bratislava Stock Exchange	10362	122
Bucharest Stock Exchange	233	22
Budapest Stock Exchange	840	113
Bulgarian Stock Exchange	203	86
Ljubljana Stock Exchange	434	90
Warsaw Stock Exchange	461	57

Source: European Exchange Report 2007, Federation of European Securities Exchanges, November 2008, http://www.fese.be/lib/files/EUROPEAN_EXCHANGE_REPORT_2007.pdf

Table 8 The main indicators of Romanian bonds market

Year	No of transactions	No of bonds traded	Turnover (EURO)	Listings
2001	5	45	172.83	2
2002	10	59,050	238,704.88	4
2003	39	187,870	4,556,257.57	10
2004	1,116	530,466	71,267,061.56	22
2005	394	397,101	35,256,683.18	19
2006	570	3,917,457	281,674,243.05	19
2007	268	6,652,467	233,466,881.88	22
2008	552	1,214,353	62,336,966.18	26

Source: www.bvb.ro

Even if the first bonds were issued in 1997, only in 2001 the bonds issued by Romanian Taking into account the type of issuer, the Romanian bond market has four segments:

- bonds issued by municipalities and other public authorities;
- bonds issued by financial companies, such as banks of leasing companies;
- bonds issued by Romanian companies, other than financial companies;
- bonds issued by international financial institutions, such as the World Bank or the European Investment Bank.

The decision of these international organizations to list their bonds on Bucharest Stock Exchange was a sign of trust in the Romanian capital market and foreign and local investors buy these bonds in order to vary their portfolios.

The Romanian bonds market has small dimensions and few listings, as compared to other European markets. The lack of economic culture, the distrust in the mechanism of the capital market, the use of banking loans as financing mechanism are some of the reasons for the limited use of bonds as financing tools for companies.

Since 2001, many municipalities have issued bonds in order to finance local development programs. In the first stage, the maturity of these loans was very little – 12-18 months. In recent years, municipalities from big towns such as Iasi, Timisoara or Târgu Mureş have launched bonds with maturities over 20 years.

This fact demonstrates that funds attracted from investors are used for major projects and local and foreign investors have assumed a greater risk because they trust the capacity of municipalities to pay back these loans. That is a sign of development of the Romanian bonds market.

The listing of these bonds on Bucharest Stock Exchange generates new investment instruments for Romanian and foreign companies or mutual funds and improve the performance of local authorities.

municipalities were listed on Bucharest Stock Exchange.

In present, the most important segment of bond market is Treasury bond segment. From 2008, the central Romanian authorities have decided to list many of their bonds on the official stock market. For many years, these securities have been traded only on the bank market. In the context of international financial crises, Treasury bonds are very interesting for investors that have focused on low risk securities.

3 The Romanian derivatives market

The Romanian derivatives market has two segments: Monetary-Financial and Commodities Exchange from Sibiu (MFCE) – established as private company and Bucharest Stock Exchange (BVB), set up as public institution and transformed into a private company according to the law of Romanian capital market – 297/2004.

The beginning year for the establishment of derivatives market in Romania is 1997, when the index futures contracts were launched on the private exchange from Sibiu. This exchange calculated its own index named BMS 1 (after the Romanian name of exchange at this time – Bursa de Mărfuri de la Sibiu) on the prices of some blue chips traded on the Bucharest Stock Exchange.

Because of the extension of its offer, the exchange changed its name in order to adapt the name with its activity.

The number of futures contracts concluded in 1997 was very low – 77.877. In September 1997, the Bucharest Stock Exchange launched the first official index – BET (Bucharest Exchange Trading), that is calculated on prices of most traded ten shares listed on this exchange. After that, the two exchanges signed an agreement for the use of BET index as an asset for futures contracts traded on the MFCE and BMS 1 index was replaced and did not use.

Table 9 Dimensions of derivatives market from MFCE Sibiu

Year	Number of futures contracts	Number of options contracts
1997	77,877	0
1998	193,203	133
1999	159,927	15,215
2000	158,536	46,752
2001	135,242	53,731
2002	225,069	67,300
2003	168,545	19,369
2004	72,901	2,273
2005	696,109	11,629
2006	4,232,059	36,651
2007	3,456,023	34,900
2008	3,578,582	40,184

Source <http://www.sibex.ro/?sibex=raport/2008>.

In time, the offer of these exchanges improved, but compared with other exchanges from Europe, their offer is limited and comprises derivatives on share, indices, interest, and currencies. In November 1998, the MFCE has launched an option on futures contracts, but until the end of the year only 133 options contracts were concluded, in contrast with 193.203 futures contracts. The next years brought others innovations. In fact, the development of MFCE activity was very slow. The first equity futures have been available since 2000, the underlying assets being shares issued by Financial Investment Company Banat Crişana, Financial Investment Company Transylvania and Petrom, important Romanian companies listed on the Bucharest Stock Exchange.

Since 2006, new index futures and options have been available because the MFCE launched its own indexes – SIBEX 9 and SIBX 18 calculated on prices of important blue chips listed on the Bucharest Stock Exchange.

The year 2007 brought a new type of stock futures and options for shares listed on Bucharest Stock Exchange. In 2008, the Monetary-Financial and Commodities Exchange launched the first foreign equity futures contract, having as underlying assets the share of ErsteBank, the only foreign company listed on Bucharest Stock Exchange.

As compared to other exchanges, the number of derivatives contracts is small and the offer is limited. The latest years are remarked by the big number of contracts, but the effects of the financial crises are present on the Romanian capital market as well.

In contrast with the developed capital market, in the Romanian derivatives market the most important sector is futures segment. The simplicity of futures' mechanism compared with the options' mechanism

could be an explanation for the use of these contracts by the local investors for speculative and hedging purpose.

The commodities derivative segment is an incipient stage. In 2000, the exchange from Sibiu had launched wheat derivatives, but the interest of companies and investors was very low; this type of contract is not available nowadays. Another try has been more inspired: gold derivatives that are cash settled. These derivatives could be used by different types of investors in order to reorganize their portfolios, because in the period of bear market for shares, the gold price is rising.

The activity of the Bucharest Stock Exchange on derivatives market is very modest. Only futures contracts are available from 2007. Initially, the futures contracts had as underlying assets indexes of Bucharest Stock Exchange: BET and BET-FI. The futures transactions were modest; only 64 contracts were concluded in 2007. The value of these contracts was USD 225,162.53 (Euro 159,966.60).

In 2008, the offer for futures contracts was improved and now, 14 types of futures contracts are available: 10 equity futures, two index futures and two currency futures (USD/RON, EUR/RON). For equity futures, the BSE chose the blue chips traded on spot market: shares issued by five financial investment companies, Petrol, Transelectrica, Transgaz, ErsteBank and Transilvania Bank. Until December 2008, the number of futures transactions was over 900 and more than 17,000 of contracts were concluded. The notional value of these contracts is over USD 7,5 millions (Euro 5 millions).

Taking into account the settlement method, the derivatives contracts launched on the Romanian markets are used only for hedging and speculation, because these contracts are cash settled.

4 Conclusions

The Romanian capital market was established later, as compared to other exchanges from the former socialist countries from Central and Eastern Europe. The main reason was the lack of proper legal framework for the activity of exchanges. The Bucharest Stock Exchange and the electronic market) RASDAQ were set up after the privatization program had begun. According to the privatization program, many state-owned companies have been listed on RASDAQ and only important companies at Bucharest Stock Exchange. After the period 1995-1997, the impact of privatization program on Romanian capital market was modest, because the privatization methods specific to the capital market were used for a small number of state-owned companies.

The Romanian capital market has small dimensions. Often, the Romanian companies and institutions use mechanisms of capital markets only for speculations purpose. The local companies do not use often the financial resources available on the capital markets through issue of shares and bonds.

In addition, the derivatives contracts could be used for hedging purpose, in order to decrease the currency risk, price risk or interest rate risk with low costs that consists in brokerage commissions. For example, the Bucharest Stock Exchange is implicated in a promotion activity of the futures contracts. The operators from the spot market have benefited reduced commissions if they buy or sell futures contracts.

The development of the Bucharest Stock Exchange – the main Romanian exchange – was slow. For many years, only spot contracts were available for shares. Since 2001, the bonds issued by Romanian companies and municipalities have been listed on the spot segment of Bucharest Stock Exchange. In order to transmit a positive signal to foreign and local investors, two important international financial institutions – the International Bank for Reconstruction and Development and the European Investments Banks – decided to list their bonds on Bucharest Stock Exchange. The evolution of this exchange improved after the merger with RASDAQ. The derivatives segment of this exchange is represented only by financial futures available since 2007.

Even if the derivatives transactions are used from many centuries in developed countries, in Romania, exchanged-traded futures and options are available since 1997. The two segments of Romanian derivatives market – the Monetary-Financial and

Commodities Exchange from Sibiu and the Bucharest Stock Exchange had different evolution.

The main derivatives Romanian market is Monetary-Financial and Commodities Exchange from Sibiu established on private initiative. With this exchange, the futures contracts have been available since 1997 and options contracts since 1998. In the Romanian derivatives market, the most important contracts are futures contracts. At international level, the situation is different, because of the advantages offered by options: unlimited profit and limited loss.

Almost all these derivatives contracts are financial derivatives, the underlying assets being shares, currencies, interest rate and indices. The first commodity traded on derivatives market was wheat, but now, these types of contracts are not used. Today, the only commodity traded is gold. The development perspectives are good, because this exchange is implicated in an innovation process. For this year, the exchange intends to launch new derivatives contracts on energy, coal, oil, indices like Dow Jones and DAX and contracts for difference.

Even the evolution of the two Romanian exchanges is different, we can observe a concentration of derivative transactions on futures contracts and on the same underlying assets: shares issued by financial corporations like financial investment companies created on the base of Privatization Program and Romanian or foreign banks (in fact, only a foreign bank are listed on the BSE – ErsteBank and derivatives contracts are available for the ErsteBank shares on two exchanges).

The impact of the financial crisis on the Romanian capital market has consisted in the decrease of prices, official indices, turnover and market capitalization.

The foreign investors left the local capital market and many derivatives contracts are used for hedging purpose against the currency risk and the price risk for securities hold in portfolios.

The innovation process in Romania is modest, as compared to other exchanges from the developed countries. At representative exchanges from America and Europe, the pace of financial innovation has been accelerated and the climbing of the institutional investor has determined the establishment of an increasingly liquid market for derivatives products.

But, the development of derivatives market and the lack of control from financial authorities generated financial crises.

Now, many economists discuss about derivatives contracts like „financial weapons of mass destruction carrying dangers that, while now latent, are potentially lethal.” Therefore, for the Romanian market, the modest dimensions of the innovation process on derivatives market was a plus, and the financial crises have not had major negative consequences. In fact, the run of some investors that used derivatives contracts for speculation purpose is compensated by the presence of some investors that use futures and options transactions in order to hedge the financial risks.

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