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Regulations of Polish capital market
Presentation outline

- Capital market definition and characteristics
- Legal basis of Polish capital market
- Primary and secondary segment of the capital market in Poland
- Financial instruments in Polish law
- Regulations of Polish capital market versus international regulations
- Organization of Polish capital market with a special focus on Polish stock exchange market
- Warsaw Stock Exchange markets and financial instruments traded
- Financial system supervision
- Responsibilities of National Depository for Securities
- Polish OTC market
- Institutional investors with a special focus on investment funds
- Bibliography
Financial market

- Money market
- Capital market
- Currency market
- Derivatives market
Capital market – main characteristics

- middle and long-term financial instruments
- savings, investments, speculations
- risk exposure and return rates
- indirect influence of central bank
- enterprises in double roles: credit takers and credit givers
- two main types of securities traded: equities and bonds
Capital market players

**Issuers**
- enterprises
- financial institutions
- insurance institutions
- municipalities

**Investors**
- enterprises
- financial institutions
- insurance institutions
- municipalities
- private investors
Capital market – reasons for regulations

- role of information and problem of equal access (lack of transparency), danger of misbehavior (insider trading, market manipulation, front running, overtrading)
- difficulties to assess value of a security traded
- problem of compensating „bad quality”
- role of trust
- severe competition between all market players
Legal basis of Polish capital market

Acts:

2. On Trading in Financial Instruments
3. On Financial (previously Capital) Market Supervision
Organisation of primary segment of capital market in Poland

- initial public offerings and private placements
- prospectus - obligation to prepare, get accepted (by KNF) and made public (required both for public offering and entering regulated market)
- law requirements to protect interests of small investors
- role of brokerage houses (passive or active)
- pricing of IPO’s, eg. book building
- PDA
Structure of secondary segment of capital market in Poland

- Organised market
  - Regulated market
    - Stock exchange
  - Alternative trading system
    - OTC market
- Private market
Financial instruments in Polish law

ACT on Trading in Financial Instruments, dated July 29th 2005:

- securities (transferable property rights – to shares or dept)
- instruments other than securities:
  - units in collective investment undertakings
  - money market instruments
  - futures contracts
  - forward interest-rate agreements, equity, interest-rate and currency swaps
  - options to buy or sell any financial instruments, interest rate options, currency options, options on such options
  - derivatives on commodities
  - other instruments admitted to trading on a regulated market
Regulations of Polish capital market versus international regulations (EU)

- obligation of prospectus following UE requirements
- informational duties of companies, which stocks are subjects of stock exchange transactions
- enforcing rules of fair trading (banning insider trading and market manipulations)
- system of compensation for investors in case of collapsing investment firms
- accepting investment firms and brokerage houses licences
Organisation of capital market in Poland

KNF (Polish Financial Supervision Authority)

Private investors → Brokerage houses/Banks → Institutional investors

BondSpot (OTC) → GPW (Warsaw Stock Exchange) → KDPW (The National Depository for Securities) → NBP (Clearing bank)

Issuers
Organisation of stock exchange market in Poland

Clients → Exchange Members: Brokerage houses → GPW (Warsaw Stock Exchange) → KDPW → NBP – clearing bank → TFI → OFE

KNF (control and regulation)
Warsaw Stock Exchange: www.gpw.pl

- a joint-stock company established by the State Treasury and started activity on 16 IV 1991
- directly regulated by the state: operates based on the Act on Trading in Financial Instruments under the supervision of the Polish Financial Supervision Authority
- WSE Rules and Detailed Exchange Trading Rules: rules concerning organization of trading, order placement and execution of transactions
Warsaw Stock Exchange: some characteristics

- WARSET
- two segments: main and parallel market
- basic conditions of admission shares to exchange trading:
  - issuing prospectus or information memorandum (approved by KNF)
  - transferability of shares is not restricted
  - no bankruptcy or liquidation proceedings underway
Warsaw Stock Exchange markets

- **Main List** - regulated market, supervised by the Polish Financial Supervision Authority (equities, bonds, pre-emptive rights, rights to shares, investment certificates, structured products, ETFs and derivatives)

- **NewConnect** - alternative trading system, secondary trading and financing platform for SMEs with high growth potential

- **Catalyst** - debt instruments market for municipal, corporate and mortgage bonds (mixture of regulated markets and alternative trading systems)

- **Poee** - WSE’s energy market, transaction platform for all participants on the energy market: producers, traders and end users
Financial instruments traded on the Warsaw Stock Exchange

- Equities
- PDA
- Bonds
- Investment certificates
- Structured products
  - with capital protection guarantee
  - without capital protection guarantee
- Futures contracts
- Options
- ETF (Exchange Traded Fund)
**KNF (Polish Financial Supervision Authority)**

- brought to life by: the Act of 21 July 2006 on supervision of the financial market
- took over responsibilities of: Securities and Exchange Commission, Insurance and Pension Funds Supervisory Commission and Commission for Banking Supervision
- banking supervision, capital market supervision, insurance supervision, pension scheme supervision and supervision of electronic money institutions
- supervised by the President of the Council of Ministers
KNF aims and responsibilities: www.knf.gov.pl

- regular operation of the financial market
- stability, security and transparency of the financial market
- ensuring confidence in the financial market
- protecting interests of market actors
- helping to solve conflicts between supervised entities and their clients
- development of financial market and its competitiveness
- education related to financial market operation
- participation in preparing legal acts related to financial market supervision
KNF supervision on the capital market

- ensuring safety and fairness of trading
- authorisation of prospectus
- registering securities offered in public offerings and admitted to trading on regulated market and introduced to alternative trading system
- supervision of informational duties of capital market institutions
- granting, revocation and limitation of licences for brokers and investment advisors
- licences for brokerage houses and offices
KDPW (National Depository for Securities): www.kdpw.pl

- managing and supervising the depository-settlement system related to trading of financial instruments in Poland
  - depository: registration and safekeeping of dematerialised financial instruments
  - supervision of the securities eligible for trading
  - clearing and settlement of transactions executed in the public securities markets
  - processing of corporate actions and securities entitlements
  - management of the Settlement Guarantee Fund
  - management of the Investor Compensation Scheme
  - social security system duties
BondSpot

- previously CeTO (Centralna Tabela Ofert) and MTS-CeTO institution with a licence to organize and manage a regulated market, alternative trading system (MTF) and others platforms for electronic trading in financial instruments

- Treasury BondSpot Poland - treasury bills and bonds, within Primary Dealer system, part of the pan-European bond platform

- Regulated market – trading in shares, treasury bonds and debt securities (municipal bonds, corporate bonds, and mortgage bonds), listed on Catalyst regulated market, dedicated to wholesale investors

- Alternative trading system – also listed on Catalyst and dedicated to wholesale investors
Institutional investors

- commercial banks (also *cooperative* banks)
- investment banks
- insurance companies
- pension funds
- investment funds
Banks

- commercial banks:
  - investing capital for own account and risk
  - market linked deposits (structured products)

- investment banks (additionally):
  - underwriting
  - recommendations and assets management
  - mergers and acquisitions
  - risk management in form of derivatives trading
  - managing money market funds
Legal basis of banks’ functioning in Poland (commercial and cooperative)

Act of 29 August 1997 – the Banking Law:

- rules of:
  - running bank activities;
  - establishing banks, divisions and branches of foreign banks
  - banking supervision
  - banks’ corrective procedure, liquidation and bankruptcy

- banking activities (to be carried on solely by a bank):
  - accepting cash deposits; keeping accounts of these deposits and keeping other bank accounts,
  - granting credits, bank guarantees and opening letters of credit
  - issuing bank securities and electronic money instruments
  - conducting bank monetary settlements

Bank Guarantee Fund
Insurance and pension funds

- insurance companies (especially life insurance)
- pension funds
  - Act of 28 August 1997 on organisation and operation of pension funds
  - authorisation and supervision by KNF
  - obligation to choose depository
  - open funds (OFE) - general society, for a fee
  - employee funds (PPE) - employee society, non profit
- investment: securities issued or guaranteed Treasury or NBP, bank deposits and securities, shares on the stock market and OTC, certificates and units of investment funds, municipal and mortgage bonds, etc., derivatives only to mitigate investment risk
- guarantee fund (main part in KDPW, part managed by society)
- IKE (bank, brokerage house, investment or insurance company)
Investment funds – IZFiA (Chamber of Fund and Asset Management) division

- equity funds
  - index funds
  - small and medium – size enterprises’ funds
  - sector funds

- mixed funds (eg. equity securities and fixed income securities – bonds and money market securities)
  - funds with hedged capital
  - sustainable growth funds
  - balanced funds
  - others (e.g. active allocation)
Investment funds – IZFiA (Chamber of Fund and Asset Management) division (II)

- dept funds (fixed income securities)
- cash funds and money market funds
- real estate funds
- private equity funds
- hedge funds
- commodity funds
- securitization funds
Investment funds in Polish law (I)

ACT on Investment Funds, dated May 27th 2004:

- KNF supervision
- requirements for creation an investment fund:
  - providing the articles of association
  - an agreement with the depositary to regist the fund’s assets
  - KNF authorisation
  - payments collected in the amount stipulated in the fund’s articles of association (min. 4 000 000 PLN)
  - enter in the register of investment funds
Investment funds in Polish law (II)

ACT on Investment Funds, dated May 27th 2004:

- **goals of investment funds:**
  - protection of the real value of the investment fund’s assets
  - generation of income from the investment fund’s net investments
  - increasing the value of the investment fund’s assets through growth in the value of its investments

- **ways to achieve goals to be included in the investment policies of a fund:**
  - types of securities that fund may invest
  - criteria for the selection of investments
  - rules of diversification of investments and investment limits
  - the acceptable level of the fund’s indebtedness
Investment funds in Polish law (III)

ACT on Investment Funds, dated May 27th 2004:

- types of investment funds:
  - open-end investment funds
  - specialist open-end investment funds
  - closed-end investment funds
  - special investment funds
Open-end investment funds

ACT on Investment Funds, dated May 27th 2004:

- units:
  - issued and redeemed at the request of a unit-holder
  - not securities
  - not to trade to third parties
  - may be inherited
  - price based on net asset value per unit + administrative fee

- investment restrictions, eg:
  - securities traded on organised market out of OECD (KNF approval needed)
  - derivatives (traded on a regulated market, to mitigate investment risk, in line with articles of association)
Specialised open-end investment funds

ACT on Investment Funds, dated May 27th 2004:

- the same rules as open-end investment funds
- possibility permit payments in form of dematerialised securities which the unit-holders acquired on preferential terms or free of charge
- possibility to invest more 20%-50% of assets in units of a single open-end investment fund, foreign fund, or collective investment undertaking (under some conditions 100%)
Closed-end investment funds

ACT on Investment Funds, dated May 27th 2004:

- issuing securities:
  - public investment certificates
  - non-public investment certificates

- introducing to primary market according to the Public Offering Act (including preparation and approval of a prospectus)

- trading on secondary market according to Act on Trading in Financial Instruments

- investment certificates: indivisible, identical property rights of bearer i.e., voting rights

- less investment restrictions
Special investment fund structures

ACT on Investment Funds, dated May 27th 2004:

- Investment Funds Issuing Units of Various Classes
  - open-end or specialised open-end

- Umbrella funds
  - a number of subfunds applying different investment policies

- Master and Feeder Investment Funds
  - selling units or issuing investment certificates solely to other investment funds created by the same management company
Special types of investment funds (I)

ACT on Investment Funds, dated May 27th 2004:

- Money Market Fund (open-end fund)
  - money market instruments
  - deposits with a maturity of no more than one year

- Portfolio Fund (closed-end fund)
  - issuing public investment certificates
  - index portfolio - based on a basket of securities on the basis of which the value of a recognised index of an official regulated securities market is determined
  - base portfolio - composition defined in the fund’s articles of association and is not based on an index
Special types of investment funds (II)

ACT on Investment Funds, dated May 27th 2004:

- Securitisation Fund (closed-end fund)
  - issuing investment certificates in order to accumulate funds for the acquisition of debt

- Private Equity Fund (closed-end fund or a specialised open-end investment fund)
  - 80% assets other than securities in a public offering or money market instruments
Bibliography

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