



THE IMPORTANCE OF INTERMEDIARIES IN STOCK TRANSACTION

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Abstract *The investors are permanently looking for new opportunities to invest, therefore most of them turn their attention and funds to the capital markets. The transactions made on the capital markets are achieved only through specialized people. The capital market intermediaries provide important tips to investors, creating an analysis of risk profile, of gain, of methods to protect against the risk and the action methods that investor should use.*

Key words:

Investment, stock exchange, capital market, intermediaries

JEL Codes:

G24, G14, O16

Introduction

The investors are permanently looking for new opportunities to invest; therefore most of them turn their attention and funds to the capital markets. The stock investments are tempting, especially because of their profitability. The stock market is increasingly attractive to investors, both internationally and nationally.

The investments in the capital markets are made through financial investment companies. On the stock market, there is a wide offer of intermediaries, the main criteria in choosing a partner for investment should be trading safety, cost and experience.

Persons interested to invest in the capital market must understand who are these intermediary companies, how they work, what are the criteria that must be achieved and which are the main financial intermediaries from the Romanian market.

1. Short presentation of the capital market

In the current international economic crisis, the development in the previous years of the main European and international indices showed a negative variation of the annual final figures, as a consequence of the decline in investors' confidence both from regional and from international stock exchanges.

At the end of 2011 most international and European indices registered declines of up to 30%. The monetary policy decisions of the central banks have increased the risk tolerance of investors, therefore the capital markets in the euro zone and from the US significantly recovered during 2012. In the United States, the price of the financial instruments at one time exceeded even the levels registered at the end of 2006, the strongest increases being registered by the instruments issued by

the financial investment companies. The global financial market ended 2012 with an upward trend with a significant increase of the market shares, particularly in December.

In 2014, the Romanian economy registered an increase of 2.9%, maintaining among the top seven European countries in terms of the dynamics of Gross Domestic Product (GDP). This favourable macroeconomic context has influenced the positive evolution of the capital market in Romania.

SA Bucharest Stock Exchange (BSE - Bucharest Stock Exchange) administrates several sections:

A. Section BSE which trades: *equities*: shares (issued by entities in Romania and international), rights, fund units and *debt securities*: corporate bonds (issued by entities in Romania and international), municipal bonds, government securities, structured products.

BVB section contains a controlled market dedicated to trading futures contracts on stocks, indices, merchandises and foreign exchange. However, during 2014 these instruments were not available for trading and therefore there were no operations with various financial instruments.

B. Section RASDAQ which trades equities;

C. Section ATS which trades Romanian and international equities.

In 2014 the total turnover of BSE (on all market segments and all instruments) was 14.41 billion lei, increasing by 6.56% compared to 2013, when it reached the threshold of 13.52 billion lei.

Table no. 1. The total value traded on BSE during the period 2012- 2014 (thousand lei)

Year	Segment BSE		Segment RASDAQ		Segment ATS		Total	
	Value	%	Value	%	Value	%	Value	%
2012	7.436.052	96,93	218.616	2,85	16.845	0,22	7.671.513	100
2013	11.243.500	97,21	301.913	2,61	20.833	0,18	11.566.246	100
2014	14.185.300	98,39	211.646	1,47	20.237	0,14	14.417.183	100

Source: Bucharest Stock Exchange statistics

The total value traded on the BSE in 2014 was 14,417,183 thousand lei, of which 14.185.300 thousand lei on the segment BSE, 211.646 thousand lei on the segment RASDAQ and 20.237 thousand lei on the segment ATS. It can be seen that the transactions with the highest value were traded on the main segment of BSE. These transactions were made through 54 intermediaries in 2012 and 43 intermediaries in 2013. At the end of 2014, the total number of participants enrolled in the Registry of BSE was 40, compared to 43 in 2013. Compared with 2013, the number of the intermediates on BSE decreased with 3 intermediaries.

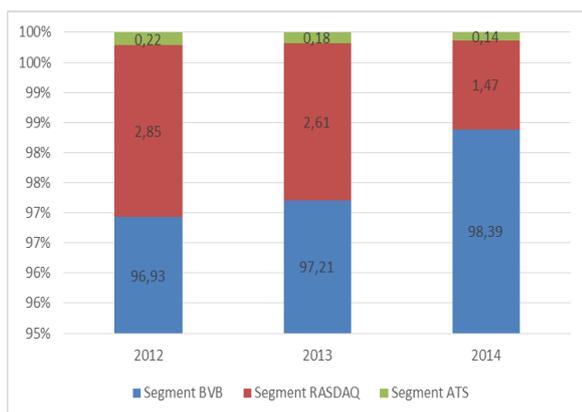


Figure no. 1. The percentage of the traded segments

From the total transactions on the Bucharest Stock Exchange, the instruments traded on BSE segment represented more than 98% from the turnover of 2014, while the value of transactions traded on the RASDAQ and ATS segments represented only 2%. ATS segment transactions had the smallest share and decreased significantly from 2012 to 2014.

While the value traded on section BSE increased in 2014 by more than 1 bln. Lei, the value of transactions on RASDAQ segment had a downward trend in the previous years; the cause of this trend is the status unclear of this segment of the market at the end of September 2014.

2. Trading through brokers

Trading on the stock market is only achieved through specialized companies called FISCs (financial

investment services companies). The Financial Investment Services Companies (FISC), are legal entities established as joint stock companies issuing shares, according to Law No.31/1990 on commercial companies, republished, who have exclusive object the provision of services investment and operating only under the authorization National Securities Commission (NSC).

The intermediaries' role is to present the customer all the available decisions that they have and to bring arguments and advises for each possibly, but the final decision always belongs to the investor.

The main regulations applicable to the Financial Investment Services Companies are CNVM Regulation no.32/2006 on investment services and Common Regulations CNVM-Central Bank concerning the capital adequacy. Since 2014 the authorization was taken over by the Financial Supervisory Authority (FSA).

The capital market intermediaries provide important tips to investors, creating an analysis of risk profile, of gain, of methods to protect against the risk and the action methods that investor should use.

There are five types of investors: the conservative investor, the prudent investor, the moderate investor, the aggressive investor and the speculative investor, each of them having their specific methods and techniques of investment.

These FISCs provide various activities, depending on the customer requirements. Their services are divided in two categories: main services and related services. The main services are:

- reception and transmission of orders regarding one or more financial instruments;
- execution of orders on behalf of the client;
- trading;
- portfolio management;
- the investment advice. Under this service, the broker performs the following actions: analysing the macroeconomic environment, sectorial analysis, competitive environment, business management, financial data of companies, dividends and financial rates and market multiples.
- Underwriting of financial instruments and/or placing the financial instruments on a firm commitment

- placement of financial instruments without a firm commitment
- administrating an alternative trading system.

The related services are:

- safekeeping and administration of the financial instruments on behalf of the clients, including the custody and related services such as funds or guarantees;
- granting credits or loans to an investor to enable him to carry out a transaction in one or more financial instruments, with the condition that the company granting the credit or loan is involved in the transaction;
- advice on capital structure, industrial strategy and related matters and advice and services relating to mergers and acquisitions of entities;
- foreign exchange services related to the activities rendered;
- investment research and financial analysis or other forms of general recommendation relating to the transactions of financial instruments;
- Services related to underwriting based on a firm commitment;

• Services and investment activities and related services provided above, where they are in relation to the provision of investment services and others related

The intermediaries are remunerated based on the volume of transactions made for the investors. The intermediary fee applies for each transaction made. The lowest fixed fees range from 0.3% to reach more than 1% and in exceptional cases (coupons) even reach the level of 8%. Most intermediaries have established a grille of fixed fees which vary according to the total value traded each month, but there are intermediaries who establish the fee depending on the original amount invested. Fees are differentiated and depend on how the investor transacts: assisted (through an intermediary) or direct (on line). There are intermediaries which allow online trading and actions that have access to the portfolio of shares and can purchase and sell shares online which will be executed in real time. The cheapest transactions for investors are those made through the online platforms, without the help or assistance of a broker. Generally, the accounts assisted have costs with 0.2-0.4 percentage points higher than online accounts.

There are Financial Investment Services Companies that charge a single fee for online transactions, regardless of the amount invested or the monthly turnover. There are also Financial Investment Services Companies that try to encourage the transactions for short term by paying low commissions on intra-day low, which can reach 0.25%.

5. Conclusions

Intermediaries have an extremely important role in the capital market. They are the ones who communicate directly with the investors, advice and conduct significant transactions themselves. The transactions mediated are influenced by commissions received on each transaction made. This brings disinterest on the purchased assets, with a focus on profit.

The high competition and the decrease turnovers on the Bucharest Stock Exchange (BSE) made the local brokerage firms to reduce their fees significantly in the recent years.

The capital market is in a continuous changing process because of the new code of corporate governance BSE. The new Corporate Governance Code will require issuers to publish their dividend policy and establish the rules regarding the announcements of the financial forecasts. Its implementation requires a set of new measures that companies must follow in order to protect the interests of the minority shareholders and to eliminate or restrict the conflicts of interest between shareholders and management.

There are not many details about the big investors on the stock exchange due to the confidentiality agreement that intermediaries must keep for their customers. The great investors who trade millions of euro and influence the shares are between 30 and 50 years, are aggressive or conservative, aware of everything that happens on the stock market and their behaviour can significantly influence the capital market development.

The successful investments are those that aim businesses that bring profit from dividends and from increased market share. It is suitable for investors to look for those businesses related to financial products that they understand and they trust, i.e. those values which, in the long term, will become profitable.

The intermediaries began to develop the capital market, as they began to find and approach new investors. Their aim is to promote the capital market and increased their profitability.

The capital market is not accessible to everyone but only to persons authorized to take part in the exchange trades. The activities in the capital market increase the interest every day, which can be considered a strategy to attract more investors.

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