DERIVATIVES ON THE CAPITAL MARKET IN ROMANIA

ILIE RĂSCOLEAN, LILIANA IVĂNUŞ
ROBERT SZABO *

ABSTRACT: *The capital market is to supply and demand of medium and long term capital, with the same role as the financial market in general with the feature length greater maturity. Institution typical secondary capital market is the stock market. The secondary market securities can, in principle an auction market or a market negotiation. In Romania there are two regulated markets of securities i.e. BSE and RASDAQ as separate entities. The coverage of financial instruments, according to EU directives in force, is wide, including both tradable capital market instruments and money market instruments. Futures contract is an understanding between two parts to sell or purchase a particular asset at a predetermined price, the performance of the contract at a future date. Options are contracts between a buyer and a seller and giving the latter the right but not the obligation, to sell or buy any particular asset at a future date, as obtained on payment of a premium to the seller. The options may be for sale when the buyer acquires the right to sell the asset, or may be purchasing, when given the right to purchase the asset. In our country options contracts were introduced for the first time SIBEX, which is currently the only market in Romania where he traded options. This gives the buyer the right but not the obligation to buy or sell a futures contract at a predetermined price, the duration of the contract.*

KEY WORDS: *capital market, stock exchange, financial instruments, derivatives, futures, options, transactions*

Thus the category of financial instruments included: securities, fund units of collective investment undertakings, money market instruments, including futures contracts involving payment of cash differences, forward contracts, interest rate, interest rate swaps, exchange rates and actions, options on any financial instrument, derivatives on commodities, any other instrument admitted to trading on a regulated market in a Member State or for which it has been made an application for admission to trading on such market.

* *Assoc.Prof., Ph.D., University of Petroşani, Romania, rascolean@upet.ro*
Lecturer, Ph.D. Student, University of Petroşani, Romania, liliivanus@yahoo.com
Economist, MSc Student, University of Petroşani, Romania, robert.szabo@yahoo.com

The capital market is to supply and demand of medium and long term capital, with the same role as the financial market in general with the feature length greater maturity.

In terms of the agents involved two types of markets that is the primary market, which are negotiated in the presence of primary and secondary securities issuer, that and his participation, and a secondary market investor market, being targeted by financial flows of a investor to another. In terms of the duration for which they are deployed / fixed resources we have: money market for short-term transactions and capital market transactions in the medium and long term.

Institution typical secondary capital market is the stock market. The secondary market securities can, in principle an auction market or a market negotiation. In Romania there are two regulated markets of securities is BSE and RASDAQ as separate entities. Bucharest Stock Exchange (BSE) is a market where goods and securities unwind after a specific procedure. The operation and its organization is made according to legal regulations, including oversight by the state. The objects of the B.V.B. include securities, currencies and precious metal.

Function of the Bucharest Stock Exchange is to concentrate supply and demand of securities, to ensure their trading stock, to record and publish courses for sale / purchase.

The role is to mobilize financial capital, its redistribution, public information on the status and market trends. In our country operates Bucharest Stock Exchange and Stock Exchange Sibiu Monetary Financial and Commodities and Electronic Exchange RASDAQ. BVB features stock indices: BET, which includes the top 10 companies listed in Category I, BET-C All companies in Category I and II, except for financial investment companies, BET-FI index is a sector that includes only investment funds listed to BSE

The purpose is to stock exchange trading securities, which are documents certifying that their owner holds a right to a certain value. They are also called securities. Moreover, financial instruments traded on the capital market can be divided into primary securities and derivatives. Primary products of the capital market are shares, bonds and specific products arising from the rights conferred by shares (rights by appropriate award and warrants). Derivatives are represented by: futures, including similar contracts with final settlement funds, options with the underlying securities, equity, money market instruments.

The coverage of financial instruments, according to EU directives in force, is wide, including both tradable capital market instruments and money market instruments.

Thus the category of financial instruments included: securities, fund units of collective investment undertakings, money market instruments, including futures contracts involving payment of cash differences, forward contracts, interest rate, interest rate swaps, exchange rates and actions, options on any financial instrument, derivatives on commodities, any other instrument admitted to trading on a regulated market in a Member State or for which it has been made an application for admission to trading on such market. Save money market instruments, short-term securities that are traded in the money market, all other types of financial instruments circumscribes capital market, are issued or traded therein.

Moreover, financial instruments traded on the capital market can be divided into primary securities and derivatives.

The securities are the shares bonds and special products generated from the rights conferred by shares.

Derivatives are represented by futures contracts, including contracts similar to the final settlement funds for contracts with the support options. Equity securities, money market instruments, futures contracts, including contracts similar to the final settlement funds, exchange rates, interest rates and commodities and other instruments qualifying as regulations of the NSC. Instruments such as futures and options contracts are forward contracts whose elements are standardized by the market operator that is traded.

Futures contract is an understanding between two parts to sell or purchase a particular asset at a predetermined price, the performance of the contract at a future date. Options are contracts between a buyer and a seller, giving the seller the right but not the obligation, to sell or buy any particular asset at a future date, as obtained on payment of a premium to the seller. The options may be for sale when the buyer acquires the right to sell the asset, or may be purchasing, when given the right to purchase the asset.

Components of capital market financial instruments by category are: market shares, bonds, government securities, derivatives market, market repo and reverse transaction market synthetic financial instruments. Synthetic financial instruments resulting from combining the characteristics of different types of financial instruments and creating a new investment tool. This category includes financial instruments by type basket ("Basket Securities"), based on a selection of primary securities, combined so that the following standardized items.

The securities are equity or debt that gives the holder certain rights established on some of the company issuing entity. The securities are inscriptions (Document value) negotiable, which can be converted into cash whenever the capital market.

The narrow, shares and bonds are securities issued by a company. Mobile assets are financial instruments include shares issued by companies, and other securities equivalent to them, traded on capital markets, bonds and other debt including securities with maturities greater than 12 months, negotiable on the capital market and also any negotiated other titles, usually giving the right to purchase those securities by subscription or exchange, giving place to a cash settlement, excluding payment instruments.

Specific securities are instruments of a market economy, capitalist, the heart of the capital markets. Legal term securities that were reintroduced recently, in the Romanian legal circuit. Consecration of the concept of securities, occurred by Law no. 52/1994 on securities and stock exchanges, the securities defined as "negotiable instruments issued in physical form or evidenced by entries in the account, which gives their holders property rights, the issuer, the law and under specific conditions, the issue of them.

Law no. 52/1994, were considered the following securities: shares, bonds and derivatives or any other debt securities, classified by the National Securities Commission in this category. Romanian Civil Code in Article 474 (taking the provisions of Article 529 of the French Civil Code), defined as movable property by determining the law, shares or interests in companies to finance, commerce or industry, even when their capital is in real estate.

The Romanian doctrine was shown that only when limited companies and partnership companies stock can be said that shares and bonds are, in principle, and securities.

But not every action can be classified and security. Dematerialized shares, being established by a written with commercial value, which are securities, not essential characteristics of securities and does not incorporate rights claim, the claim can not give autonomy to the fundamental legal relationship and no certainty that he would give it a literalness.

The definition of securities in the current Romanian law starts from the premise that the securities are a species of financial instruments, premise set out in art. 2 (1) section 11 letter. a) of Law No 297/2004 on the capital market, it is also applicable law currently governing the capital market are considered securities under Article 2 of Law No 297/2004 following pct.33: Shares issued by companies and other securities equivalent to them, traded on capital markets, bonds and other debt instruments including government securities with a maturity of more than 12 months, negotiable on the capital market; Any other securities normally giving the right to purchase those securities by subscription or exchange giving place to a cash settlement, excluding instruments of payment. The definitions in art. 2 sections 33-34, Law No. 297/2004, divides securities into equity securities and securities other than those related to equity securities.

Equity securities are shares or other securities equivalent to shares, and any other securities giving the right to acquire as a result of a conversion or exercise of this right, to the extent that the values of the latter type are issued by the same issuer or by an entity belonging to the group he belongs to that issue.

Securities not falling into this first category, the capital securities are part of the second category. One can appreciate that equity securities are securities such as shares, while the securities in the second category are the type of non-convertible bonds into shares. The common feature of all these titles represent, as you can see, negotiability. Equity securities or securities other than equity securities are securities that are traded either for or because they are tradable capital. Mobile assets market securities are traded on regulated markets, stock exchange or OTC, only after, in advance, have been registered as such by the NSC, the Office of Securities records from there.

The securities have a complex legal nature. Originally securities are contracts between an issuer and subscribers. But this gives rise to rights which detaches itself from the contract, getting the consistency of property whose existence is independent of the contract. In some cases, some financial products are underwritten for a single holder but reserves the power to fractionate them, if appropriate, between several carriers. The product is a commercial in origin but with the vocation to become a security.

The principle of harmonizing the relevant national laws, a principle which is based on the Treaty of Rome, has as its starting point the essential concepts of harmonization of capital market. The concept of security has a broad imposed by Directive. 79/279 concerning the conditions of admission to official listing on a stock exchange and the European code conduct in securities transactions, account appears "any way negotiable or likely to be negotiated on an organized market.

European doctrine considers that the securities are shares or other securities equivalent to shares, certificates representing the shares, bonds issued by public or private entities, other securities to capital markets and "any other negotiable securities which would normally acquisition of such securities by public subscription or by exchange or cash.

Union Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field (DIS), the Directive entered into French law by Law no. 96-597 of July 2, 1996 on the modernization of financial activities, the directive considers that by the value of securities we understand "categories of securities typically capital markets, for example, government securities, shares, negotiable securities allowing the purchase of shares by subscription or exchange, certificates of shares, shares issued in series, index warrants and allowing the purchase of such debt securities by subscription". Articles 1 of this Directive shall deem securities: shares and other securities equivalent to shares, bonds and other negotiable debt capital markets and any other securities normally dealt in, allowing the purchase of such real property by subscription or exchange or giving entitlement to a cash payment. European courts have decided, however, that the proposed definition does not affect the various definitions of financial instruments held in national legislation for other purposes, especially for tax purposes. As such, the definition has only indicative value.

The securities are incorporated into Community law securities claims or personal-patrimonial rights (sometimes referred to as political rights, whereas it some securities carry a right to vote at general meetings of shareholders and members of the bondholder or issuer, and, under certain conditions control of the issuer). For securities traded on regulated markets must be made in advance subject to initial public offerings and have been registered in advance to share exchange or regulated market.

The first grant approved in Romania to organize and manage the market for trading derivatives is Scholarship Monetary Financial and Commodities Sibiu. Derivatives exchanges, including those with the underlying goods are regulated, approved, monitored and controlled, like all other grants by the National Securities Commission. Financial market derivatives exchange company managed by SC SCE S.A. developed continuously, so that in 2004 the market traded within 16 futures and 16 options contracts by type with the underlying futures contracts.

Futures and options investors are addressed both as a hedging tool for the unfavourable evolution of asset price-support and to obtain profits through speculation in asset prices available for trading. Derivatives are traded in an electronic platform that allows remote trading and offers risk assessment of compensation and position of the investors in real time. Also have direct access to qualified investors, seeking real-time price developments.

Scholarship Monetary Financial and Commodities Sibiu Romania is the only stock exchange where futures and options contracts traded with shares listed on the underlying spot market. Particular interest to these tools has materialized in a volume of over 3,000,000 contracts registered in the first 10 months of 2006.

This has led to diversification of existing instruments and creating new opportunities through new products of the exchange, which can be used successfully in their trading strategies. SC B.M.F.M. SA SIBIU was established as a private legal person and functions as joint stock company under Law 31/1990 with the object of "administration of financial markets" - CAEN code 6711. SC BMFM SA SIBIU market operator is authorized by the National Securities Commission of Romania in the decision being entered in the register 356/31.01.2006 NSC, Section 11 - Operators of the market with no. PJR11OPPR/320002. Regulations SC BMFM SA Sibiu and the SCE are approved by the NSC by Decision no. 357/31.01.2006 and 358/31.01.2006. Regulatory framework applicable to SC BMFM SA Sibiu and SCE includes Law 31/1990 on commercial companies, Law 297/2004 on capital market regulations and regulations NSC's own SC BMFM SA Sibiu and SCE. Capital of SC BMFM SA SIBIU is distributed 3,254,000 USD 16,270 shares of nominal value EUR 200 per share.

A shareholder may not, directly or through affiliated persons involved or more than 5% of the total voting rights in the General Assembly of Shareholders.

Specific element is the organization of capital to "exchange cards" (or membership card) the same system can be met in the United States to the major derivatives exchanges (Chicago Mercantile Exchange and Chicago Board of Trade). Currently the share capital of SC BMFM SA SIBIU is divided into 373 cards from the stock 81 small cards (package of 20 shares) and 293 large cards (package of 50 shares) that gives the holder of trading as markets developed by SC SCE and free access to electronic trading platform ELTRANS.

The most common derivative securities in our country now are futures contracts. A futures contract is an obligation to sell or buy at a future time (called maturity) a specified quantity of a commodity, a financial asset or currency (called the underlying) at a price and according to standard specifications set when concluding the contract (currently).

At maturity there is a reverse of the initial operation (buy or sell), earned or losing is the difference between the prices of the two operations. Underlying asset may be: a commodity whose characteristics are standardized (oil, grains, cocoa, etc.), a currency, a stock ticker, interest rates, etc.. Goods or currency futures can run either with or without physical delivery of the assets concerned. In our country it is developing all futures contracts without physical delivery of the asset. By trading the stock, futures contracts have a course on the market, resulting from supply and demand.

Specifically, we take the example of the futures contract on the leu / dollar exchange traded Monetary Financial and Commodities Sibiu - Sibex. The aim of the ends (traded) contracts is to obtain a gain in future money. Contracting Parties are any natural or legal persons who have an account at a brokerage firm trading companies (like companies who trade securities on the Stock Exchange, but different from them).

The market rate of U.S. dollar futures contract today (today) is the estimate made by those who traded him on the value rate of the NBR the day due date (at the end of the month, for example). Thus, the futures rate is influenced by the evolution of official lei / dollar but also the supply and demand for these futures.

Example, an investor's official estimate growth rate (NBR) of the dollar in the coming weeks and appreciate the price of futures trading in U.S. dollars Sibex is reduced compared with its expectations. He buys futures contracts today at market rate if the forecast futures. In were true and the official exchange rate rose, it means that the futures of the market increased. Now he has two choices: 1. market to sell futures contracts purchased, the sale being carried out at a rate higher than the purchase. In this case he wins the difference: (selling rate - the process of buying) x multiplier x number of contracts.

Multiplier is 1000 for this type of contract, 2. to wait until maturity (end), when there is compulsory liquidation contracts through a sale. In this case he wins the difference: (BNR course in late - being bought) x multiplier x number of contracts.

If that forecast does not come true and the falls, then the investor register a loss caused by the negative difference between the futures purchase and sell (or purchase of the futures and the current exchange rate at maturity, if the expected until maturity). If investors expected a decline from the beginning of the course and not an increase, as we detailed in the above example, it could start with a sale, following that later, when the rate fell, to perform the reverse operation Purchase, winning difference.

The purpose of these transactions is either getting some hedge gains or economic agents to cover depreciation of the leu. For the latter case, take the example of an importer: he enters into a contract to import and pay $ 1000 today at a rate of 3.0000 RON / USD (for example), but loads them arriving over 2 months, when the course is 3, 4000 GBP / USD (for example), and it records a loss (charging the same goods less money, in dollars, than he paid). In this case, to cover, at the contracting import it buy futures contracts, and after 2 months he sells them and register a win in the futures, gain what diminishes the loss of import.

U.S. dollar futures contract price is called margin and is only a fraction of the value of the futures contract. Thus, the price of a futures contract by $ 1,000 (worth 1000 $ x approx. 3.0000 USD / $ = approx. 3000 USD) is only 187.5 USD. Basically it is a price (not lost) but only a deposit where you can fall any losses. If we achieve a win, money is conserved.

The validity of a contract (the Stock Exchange in Sibiu) is 3 months and 6 months. For each transaction is paid a brokerage commission agency. Similarly is running and futures contracts or stock BET. Contracts options. A contract options are a right (but not the obligation) to buy (CALL type option) or sell (PUT-type option) a financial asset (a share, a futures contract, etc.) in a future time and at a predetermined price at present (called the exercise price).

The buyer can decide if their contract options be exercised or not his option to buy or sale the assets, depending on their interests and forecasts. To the right of option buyer pays the seller on completion of the transaction an amount of money called first. The premium is what is negotiated at exchange and be subject to supply and demand.

Thus, the loss is limited to the first buyer that the seller pays the contract. If his predictions are not confirmed, the buyer is not obliged to exercise the option, losing only the first. If the forecast is confirmed, the buyer will exercise the option. In terms of vendor earnings or premium received from the buyer, the seller has no decision power on option exercise, he waiting for buyer decision in this regard.

In our country options contracts were introduced for the first time SIBEX, which is currently the only market in Romania where he traded options. This gives the buyer the right but not the obligation to buy or sell a futures contract at a predetermined price, the duration of the contract.

In conclusion, the risk of derivative transactions is very high, because working on the margin (do not pay full value of the contract, but only a fraction of it, as I mentioned in previous chapters).

Working on margin is not necessarily a disadvantage for this type of operation, because gains can be obtained also very large: Suppose an operation by purchasing a futures contract on the exchange rate EUR / USD. The value of such a contract is USD 1,000, so 1,000 x 3.0000 GBP / USD (for example) = 3000 USD. Working on margin will not pay full value of the contract, but only an initial margin of EUR 187.5. If predictions come true and bring a transaction gain of EUR 25, then return operation will be 25/187, 5 = 13.33%, much higher than 25/3.000 = 0.83%, obtained for that would have paid full value of the contract. This reasoning is valid, but in reverse. If you would have lost 25 USD, then the loss would have been 33% of the amount invested.

For transactions that are intended to obtain some gains speculation, we give below an example on futures contracts maturing in December 2008, with the underlying shares of SIF Moldova (SIF2).

The value of such a contract to market is 1000 shares * 0.61 USD = 610 USD. Working on margin will not pay full value of the contract, with a margin of only 150 USD. An investor decides to sell (to open "short" positions) in 10 contracts DESIF2-DEC08 price of 0.61 RON / share. At maturity Quote DESIF2-DEC08 contract was 0.55 lei and liquidity positions were automatically, but the investor with the right to close positions held and before maturity. The profit earned by it was 600 lei (60 lei / contract). The yield obtained was 60/150 = 40%, much higher than 60/610 = 9.83%, obtained in case that would have paid full value of the contract.

Trading in futures contracts can make spectacular gains, provided that these operations take place following a careful study and rigorous analysis. Note that the degree of risk is very high - you can lose all money invested in only a few days, there are cases in which the loss may exceed the amount invested. Trading in options contracts can limit these risks, however, the liquidity of this type of contract is very small now. Diversification in the future of this operation (by introducing stock options, for example) will increase their attractiveness to them.

Interest in options transactions on SCE increased in recent years. An interesting feature advantages, as it entitles an investor to buy or sell an underlying asset (futures contract, if SCE) at a pre-determined price at the time of the transaction, but without creating an obligation to do so. Thus, an investor who wants to risk too much, but anticipates an increase in the exchange, will buy CALL options, paying the price not too high a sum called first. In this way the investor is entitled to maturity options, to buy the underlying asset at a price set when the transaction, with the growth of (exerting option, the investor buys the futures contract at a lower price and sells at market prices, higher , recorded profits).

If the market is evolving not in the sense expected, then the investor does not exercise the option and loses only the price paid for first, accounting for a much smaller loss than if they bought directly futures contract and the market would be low. The situation is similar to an investor who anticipates a fall in the exchange. This type will buy PUT options, paying them a first seller.

If the market falls, according to predictions, then the investor has the right to sell futures contract at a price fixed when the deal with the options and buy it, then, to market, a profit, if the market does not decrease, then the investor does not exercise the option and loses only the first.

Therefore, things are clear and quite interesting for buyers of options. They have a limited risk to the premium paid, but a potential big win. How are things for sellers of options? They rely on a market development contrary to those amend a buyers options. Therefore, if a buyer of options CALL (for Purchase) rely on market growth, the seller anticipates a decline same options. If the market drops, the seller remains the options premium received and the buyer does not exercise option and things stop there.

But if the market grows, things get complicated for the seller CALL options. He collected first from the buyer (but, as we have seen, this is not very high). The buyer will exercise the options held and will begin to accumulate profits so long as the market grows.

The seller of the same options will start to accumulate losses as long as the market grows, moreover, the latter has no way to get out of it transaction. The seller of the CALL options at your disposal is their customer, so that its losses are theoretically unlimited. PUT an option seller has the same problem if the market falls. In this case, the buyer exercises the option and the seller accumulates losses as long as the market falls.

It is very sad scenario for sellers of options, provided that the losses which they may accumulate are theoretically unlimited (and may exceed, without problems, the amounts originally invested). The sellers of options have an initial moment of joy at receiving the first, but if their projections do not come true, they lose control over transactions and are unable to get out of it than when buyers decide.

These are things that are not being discussed when promoting the benefits of the options. These benefits exist, but when you do not know all the information related to their function, the options can be dangerous, especially for beginner investors.

Of course, the risks I have mentioned above can be covered: a seller of options should CALL buy futures contracts that represent the underlying assets of options, so if the market grows and seller of options begin to accumulate losses (theoretically unlimited) of options These losses will be covered by earnings futures, similarly, a seller of PUT options would be to sell futures contracts that are underlying of the options. Unfortunately, these things are little known, especially by investors' beginners.

Therefore, when an investor discovers with great enthusiasm options, it is better that they take into account all the risks involved. Otherwise, a seller of options, the joy of the collection of the first page can turn very quickly into despair when losses accumulate, without the possibility of being terminated.

REFERENCES:

[1]. Voicu, E.; Pasol, R. - *Ghid de investitii personale*, Editura Meronia, Bucureşti, 2004

[2]. Stoica, V.; Gruia, A.I. - *Pieţe de capital şi produse bursiere*, Editura Universitară, Bucureşti, 2006

[3]. Piperea, G. - *Societăţi comerciale, Piaţă de capital, Acquis comunitar*, Editura All Beck, Bucureşti, 2005

[4]. www.cnvmr.ro, pagina Comisiei Naţionale a Valorilor Mobiliare

[5]. www.sibex.ro, pagina Bursei Monetar Financiare si de Marfuri, din Sibiu (BMFMS)

[6]. www.kmarket.ro