

Wioletta Nawrot *

TAKING ADVANTAGE FROM THE EU FINANCIAL SERVICES ACTION PLAN – RECOMMENDATIONS FOR THE POLISH STOCK MARKET

After the entry of Poland to the European Union the new legislative environment based on the *Financial Services Action Plan* brings powerful opportunities to the Polish stock market and its participants. For taking full advantage of them, the Warsaw Stock Exchange must engage fully in the integration process. It is also extremely important to develop and implement policies that act at the macro-economic level to stimulate positive functioning of the capital markets in Poland. On the other hand, Polish companies need to start preparing for the strategic implications of a more integrated financial services market. They will need to ensure their business practices and systems are compliant with the new rules.

Keywords: Capital Markets, European Integration, Financial Services Action Plan

INTRODUCTION

On 1 May 2004 Poland joined the European Union and the process of integrating Polish and EU securities markets began in earnest. This process may help create opportunities for Polish stock market participants, but may also heighten risks and threats to the development of the local equity market. In order to develop the Polish stock market in a new, European, perspective some changes should be introduced.

The objective of this study is to diagnose opportunities and threats to the securities market in Poland (especially to the Warsaw Stock Exchange) within the scope of the Financial Services Action Plan and to present a set of recommendations making the integration process more advantageous for Poland.

* Researcher in CASE – Center for Social and Economic Research

1. EVOLUTION OF THE SECURITIES MARKETS WITHIN THE EU – FROM THE RULE OF MINIMUM HARMONIZATION TO COMPLETE INTEGRATION

Securities market integration has developed gradually in the EU since the 1970s. At the beginning of this process the European Commission tried to surmount national barriers through detailed harmonization of technical regulation. This having failed, the European Commission decided to change the strategy. In the mid-1980s, a new 3 pillar based approach was introduced. One of the key factors in EU (and earlier EC) capital market integration has been the *mutual recognition* of regulatory standards based on the acceptance (to a certain degree) of regulatory differences, flexibility and competition between member states. This has been accompanied by the rule of *minimum harmonization* of regulations fundamental for the functioning of an internal market, together with the *home country control* and supervisory co-operation, which have jointly acted to ensure a minimum level of protection of the public interest. In practice, running together the principles of “mutual recognition and minimum harmonization” has been difficult. The main reason for this has been the fact that EU securities regulations have not been able to fit all the different national securities regimes and fragmented market structures and practices.

In the 1990s, structural changes brought new challenges for the securities markets and their regulation. The most important challenge was combining the full liberalization of capital movements and the introduction of a single currency in the EU with simultaneously enhanced competition in the EU, market restructuring, and developments in technology and infrastructure. As a result of the new challenges the European Commission came back to the concept of complete integration of securities markets within the European Union. In order to overcome many of the existing system and regulatory difficulties in financial market integration, the Financial Services Action Plan (FSAP) was launched.

2. FINANCIAL SERVICES ACTION PLAN – A NEW STRATEGIC APPROACH FOR EUROPE

Established in 1998, the Financial Services Action Plan was an attempt to make the EU better equipped to meet the challenges of the 21st century. The European Commission prepared the FSAP to tackle the issues of legal and supervisory barriers, administrative difficulties and inflexible market structures. The objective of the FSAP was very ambitious: to create deep, liquid European capital markets. The removal of barriers to cross border retail financial services with a high level of consumer protection was the key issue. This plan became a key part of the EU long-term economic programme, set out at the 2001 Lisbon Council. (In June 1998, the Cardiff European Council entrusted the European Commission to set a framework for action to develop a single market in financial services. Published in May 1999 Commission Communication containing the FSAP was endorsed by the Lisbon European Council in March 2000.) Since the inception of the FSAP, the Lisbon Strategy has set the glorious aim of creating the most dynamic, innovative, knowledge-based economy in the world. A more efficient and liquid capital market would facilitate the financing of the economy and thus would enhance competitiveness, growth and job creation.

Presented on 11 May 1999, the Financial Services Action Plan encompassed a mixture of proposed new legislation, amending legislation, the European Commission Communications and Recommendations, all with a timeframe for completion by 2005 (later amended to 2003 for wholesale capital market integration). A five year plan, FSAP contained a set of 42 legislative measures. It was designed to harmonize the member states' rules on securities and derivatives markets, banking sector, insurance, mortgages, pensions and all other forms of financial transaction, including raising capital on an EU-wide basis and comparable financial reporting through accountancy rules. On the retail side, the emphasis was on information and transparency, charges for cross-border transactions and safeguards for e-commerce (Table 1).

Table 1
Strategic objectives and actions within the Financial Services Action Plan

FSAP GENERAL OBJECTIVE
<i>Wider conditions for an optimal single financial market</i>
<ul style="list-style-type: none"> ▪ Addressing disparities in tax treatment; ▪ An efficient and transparent legal system for corporate governance
FSAP STRATEGIC OBJECTIVE 1
<i>A single EU wholesale market</i>
<ul style="list-style-type: none"> ▪ Enable corporate issuers to raise finance on competitive terms on an EU-wide basis; ▪ Provide investors and intermediaries with access to all markets from single point-of-entry; ▪ Allow investment service providers to offer their services on a cross-border basis without encountering unnecessary hindrances or administrative or legal barriers; ▪ Establish a sound and well integrated prudential framework within which asset managers can put funds at their disposal to their most productive use; ▪ Create a climate of legal certainty so that securities traders and settlement are safe from unnecessary counter-party risk
FSAP STRATEGIC OBJECTIVE 2
<i>Open and secure retail markets</i>
<ul style="list-style-type: none"> ▪ Equip consumers with the necessary instruments (information) and safeguards (clear rights and effective dispute settlement) to permit their full and active participation in the single financial market; ▪ Identify and roll back insistence on non-harmonized consumer-business rules as an obstacle to cross-border provision of services; ▪ Promote the emergence of effective mechanisms for overcoming fault in the single retail financial market which have their origin in differences in private law; ▪ Create legal conditions in which new distribution channels and distance technologies can be put to work on a pan-European scale; ▪ Encourage the emergence of cost-effective and secure payment systems which enable citizens to effect small-value cross-border payments without incurring exorbitant charges
FSAP STRATEGIC OBJECTIVE 2
<i>State-of-the-art prudential rules and supervision</i>
<ul style="list-style-type: none"> ▪ Eliminate any lacunae in EU prudential framework, arising from new forms of financial business or globalization, as a matter of utmost urgency; ▪ Set rigorous and appropriate standards so that the EU banking sector can successfully manage intensification or competitive pressures; ▪ Contribute to the developing of EU supervisory structures which can sustain stability and confidence in an era of changing market structures and globalization; ▪ Develop a regulatory and supervisory approach which will serve as the basis for successful enlargement; ▪ Enable the EU to assume a key role in setting high global standards for regulation and supervision, including financial conglomerates.

Source: Financial Services: Implementing the Framework for Financial Markets: Action Plan. Communication of the Commission, COM (1999) 232

The completion of the FSAP within the tight deadline has been accompanied by a new legislative approach to developing and adopting European Union financial services legislation. This approach has been based on the recommendations of the Committee of “Wise Men” presided by Alexandre Lamfalussy. A new legislative process to govern security markets (the “Lamfalussy process”) was introduced with a view to capitalize on the potential benefits arising from the single financial services market outlined in the FSAP. This process was divided into four levels (Table 2).

Table 2

The Lamfalussy legislative approach for the securities markets in the EU (the four levels)

Level 1	Framework legislation, voted on by the Council and Parliament
Level 2	Implementing measures for the Level 1 legislation, led by the Commission
Level 3	Supervisory committees facilitating the convergence of regulatory practices
Level 4	Enforcement of all EU measures, led by the Commission

Source: Final Report of the Committee of Wise Men on the Regulation of European Securities Markets, 15 February, 2001.

The first level consists of legislation proposed by the European Commission following consultations with interested parties and adopted by the European Parliament and European Council based on co-decision procedures. In these proposals (directives or other regulations) the Commission, the Council and the Parliament agree on the nature and extent of detailed technical implementation of the necessary measures for each directive or other legislation acts considered in the first legislative level.

At level two, the newly established security market authority – the European Securities Committee (ESC), the regulatory committee, assists the European Commission in adopting the relevant implementational measures. The second newly established securities market authority – the Committee of European Securities Regulators (CESR) plays a consultative role at this level. The task of legislation at level two is to ensure that technical provisions are kept up to date with market developments.

In order to improve the consistent implementation of level 1 and 2 measures in EU member countries, a third level regulatory process was designed by the Lamfalussy Committee. The particular responsibilities allocated to this legislative level were entrusted to the CESR.

Level four of the legislation process was designed at the level of transposing EU law into domestic law.

The Lamfalussy process has been designed to improve the quality and effectiveness of EU securities markets legislation by differentiating between framework legislation and technical implementing measures subject to “comitology”. Thanks to that, changes in technology and market practice can promptly be accommodated. The quality of the legislation can be also improved through consulting market participants more fully and creating an EU network of national regulatory authorities, all in order to ensure consistent and equivalent transposition of the legislation set by EU authorities.

This regulation process has responded effectively and rapidly to securities market developments and new challenges. By the end of 2004, almost all of the FSAP measures have been delivered on time. The deadline the European Commission set for its implementation by the Member States falls in 2007 (Table 3 for securities markets). It is therefore important to ensure an effective and co-ordinated implementation and application of these rules into national financial regimes. Its execution would enable to overcome many of the existing regulatory difficulties in securities market integration.

Table 3
Main EU regulations governing securities markets

Regulation	Implementation deadline
Directive 2003/6/EC of the European Parliament and Council of 28 January 2003 on insider dealing and market manipulation (market abuse), OJ L96, 12.04.2003.	12.10.2004
Directive 2003/71/EC of the European Parliament and Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, OJ L345, 31.12.2003.	01.07.2005
Directive 2004/39/EC of the European Parliament and Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC, OJ L145, 30.04.2004.	30.04.2006
Directive 2004/109/EC of the European Parliament and Council of 15 December 2004 on the harmonization of transparency requirements in relation about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC, OJ L390/38, 31.12.2004.	20.01.2007

Source: European Commission.

Although the Lamfalussy legislative approach was initially introduced for securities legislation, the Lamfalussy approach has now been extended to cover legislation on banking industry, pensions and insurance. The European Banking Committee (EBC) and the European Insurance and Occupational

Pensions Committee (EIOPC) join the European Securities Committee at Level 2. At Level 3, the Committee of Banking Supervisors (CEBS), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) have been created. These committees play for the banking industry, pensions and insurance the role the CESR fulfils in the securities markets.

As for the impact of the Financial Services Action Plan itself, it is still too early to draw any firm conclusions. Its effect will manifest itself only over the medium-to-longer term. However, there is already some evidence that European capital markets are beginning to integrate and as a result trading costs, the cost of capital, spreads in the bond market started to fall; cross border investments were accelerated both by individual investors and investment funds (source: European Commission estimate). Common trading platforms, stock exchanges and post-trading infrastructures were being reshaped on a pan-European cross border basis. Greater competition started to bring more innovation, product choice with reduced costs for all securities markets players.

3. STOCK MARKET IN POLAND AT THE ENTRY TO THE EUROPEAN UNION – AN OVERVIEW

The beginning of an organized securities market in Poland is usually dated back to 1817, when the Warsaw Mercantile Exchange (WME) was established. In the 19th century mostly debt financial instruments (various kinds of bonds) were traded on the WME. Trading in equities developed in the first half of the 20th century. Before World War II seven stock exchanges operated in Poland, although the Warsaw Stock Exchange was responsible for 90 percent of total domestic trading. Due to the change in political and economic regime in Poland after the war the capital market, with the stock exchange as its main institution, was not re-activated.

In recent times, the political landscape changed in Poland with the ‘Round Table’ negotiations in 1989, and the new (non-communist) government decided to re-build capital market mechanisms, alongside other market structures. In its present form, the Warsaw Stock Exchange (WSE) began activity in 1991. Until 24 October 2005, its current activity was based on the *Law on Public Trading in Securities* of 1997, as amended, which was supervised by the Polish Securities and Exchange Commission. In 2005 a new securities law has been introduced. Fifteen years of activity of the WSE

have been crucial for the development of Poland's capital markets, although various negative phenomena have also been witnessed along the way. The WSE remains a state-owned company, with 98.8 percent of its shares belonging to the Treasury Ministry and only 1.2 percent to a handful of brokerage houses, banks and listed companies.

The main segment of the Polish stock market is the equity market. The equity market can be assessed looking at a number of factors, with the key ones being market capitalization, number of listed companies (equities) and equity market liquidity.

Table 4
Equity market capitalization, 2000-2006

ITEM	2000	2001	2002	2003	2004	2005	2006
Year-end equity market capitalization (million PLN)	130085	103370	110565	167717	291697	424900	635909
(million USD)	31479	26155	28849	44809	97382	130285	218488
Annual growth of PLN capitalization		-21%	+7%	+51%	+74%	+46%	+50%
Domestic companies capitalization (million PLN)	130085	103370	110565	140001	214313	308418	437719
(million USD)	31479	26155	28849	37404	71548	94 569	150393
Foreign companies capitalization (million PLN)	-	-	-	27716	77384	116482	198190
(million USD)				7 405	25834	35 716	68 095
Year-end domestic companies capitalization as a % of GDP	18%	14%	14%	21%	25%	32%	

Currency rate: 1USD = 4,1325 PLN (2000); 3,9522 (2001); 3,8325 (2002); 3,7429 (2003); 2,9954 (2004); 3,2613 (2005); 2,9105 (2006)

Source: Warsaw Stock Exchange data

At the end of 2006, WSE capitalization amounted to US\$218 billion, at the end of 2004 – to 97 billion, 74 percent more than in 2003 (Table 4). The 2006 stock exchange capitalization was the highest in the WSE's history. In 2003, 2004, 2005 and 2006 a number of foreign companies were introduced onto the WSE. The capitalization of these companies has been relatively important and in 2004 as well as in 2005 amounted to one fourth of total WSE capitalization, in 2006 – to one third.

WSE's activity in 2001-2002 slowed down due to Poland's poor economic growth. In this period equity market capitalization was lower than

the capitalization in 2000. 2004 is considered a year of change and relative economic prosperity. In May 2004 Poland joined the EU and one of the consequences was enhancing Poland's export opportunities. The relatively weak Polish zloty at the time also pushed up Polish exports and in part this helped increase economic growth. Poland's EU accession opened up a large and liquid financial market for domestic firms and reduced the costs of capital. Fiscal policy in Poland also changed at around the same time, on balance to the advantage of the private sector. These and other factors have had an important influence on Polish companies' finances and forecasts. In short, economic revival stimulated investment activity on the WSE starting from 2003, which is important for listed companies' market valuation and in turn therefore for the equities market capitalization rates.

In terms of market capitalization the Polish equity market (second only to the Vienna equity market) is the most important in Central and Eastern Europe. To compare: 2005 (2004) Vienna Stock Exchange capitalization was US\$126 billion (US\$88 billion), the Czech Republic equity market US\$59 billion (US\$45 billion) and the Hungarian US\$33 (US\$29 billion) billion. Unfortunately, the WSE's capitalization in relation to GDP does not put the Polish equity market among the region's leaders. At the end of 2004 Polish equity market capitalization of domestic companies was a mere 25 percent (in 2005 – around 30 percent) of GDP, while the average ratio for the 15 “old” EU countries was 60 percent. It is worth underlining that in France this ratio was 60 percent, but in Germany only 30 percent.

The number of listed companies, the quantity of listed equities and equity turnover value are important in terms of equity market liquidity.

At the end of the 2006, 284 companies were listed on the WSE, at the end of 2000 - 225 companies (Table 5). 284 is the largest number of listed firms in the WSE's history. (The number of listed companies in earlier periods: 1991 – 9, 1992 – 16, 1993 – 22, 1994 – 44, 1995 – 65, 1996 – 83, 1997 – 143, 1998 – 198, 1999 – 221.) Also in 2006 – 38, in 2005 - 35 and in 2004 - 36 new companies were introduced onto the WSE. According to World Federation of Stock Exchanges in 2004 the WSE was in second place in Europe (after the London Stock Exchange – LSE) in terms of number of new listings (LSE – 423 new listings, WSE – 36, Euronext – 32, Deutsche Börse – 6), in 2005 – in third place (after the LSE – 626 and Oslo Stock Exchange - 46). In 2005 Euronext had 34 new listings, Deutsche Börse – 15, which was (beside 1997 and 1998) the largest in recent history. The number of newly listed companies in earlier periods: 1991 – 9, 1992 – 7, 1993 – 6, 1994 – 22, 1995 – 21, 1996 – 18, 1997 – 62, 1998 – 57, 1999 – 28. It is also

worthwhile underlining the listing of foreign companies on the WSE. Bank Austria Creditanstalt was introduced on the WSE in 2003 as the first foreign firm listed in the Polish market. In 2004 other foreign companies started to be listed on the WSE: BorsodChem (Hungary), Ivax (USA) and MOL (Hungary), Cinema City International (Holland) and BMP Venture Capital Fund AG (Germany). In 2005 two other foreign companies were introduced on the WSE – AmRest Holding and SkyEurope. At the end of January 2007 13 foreign companies were traded on the WSE.

Table 5

Warsaw Stock Exchange listed companies and equity turnover value, 2000-2006

ITEM	2000	2001	2002	2003	2004	2005	2006
Year-end number of all listed companies	225	230	216	203	230	255	284
Number of newly-listed companies	13	9	5	6	36	35	38
Delistings	9	4	19	19	9	10	9
Turnover value (million PLN)	169096	84495	67488	66443	109775	191096	334539
(million USD)	40919	21379	17609	17752	36648	58595	114942

Currency rate: 1USD = 4,1325 PLN (2000); 3,9522 (2001); 3,8325 (2002); 3,7429 (2003); 2,9954 (2004); 3,2613 (2005)

Source: Warsaw Stock Exchange data

The statistics cited above suggest that the period since 2003 has been key in terms of WSE activity and as such for capital markets as a whole in Poland. This period has been characterized by a decreasing number of delistings. The highest number of delistings took place in 2002 (19) and 2003 (19), before falling off to 9 in 2004, 10 in 2005 and 9 in 2006. In the period 1991-2006, 88 companies were withdrawn from the WSE.

WSE delistings constitute an obstacle to the sustainable development of the equity market in Poland. Delisting means a diminution of the number of equities listed on a stock exchange and the number of equities in the capital market influences market liquidity, which in turn is a key factor of market development.

The delisting process can be explained with reference to various factors. Firstly, many firms listed on the WSE have a strategic investor maintaining corporate control. Sometimes investors do not want to continue to list their

equities on the WSE for cost reasons, disclosure obligations or changes in corporate strategy. Secondly, capital market authorities have been obliged to delist equities of bankrupt companies, firms with financial problems and companies that have not complied with disclosure obligations.

One of the measures of equity market liquidity is turnover value. This shows the value of equity transactions in a given period of time (during a single year, for example) and depends on the number of equities engaged in transactions and the market price of shares. In 2006 equity market turnover was US\$115 billion in 2005 – US\$59 billion, in 2004 – US\$37 billion. Although equity market turnover has grown in recent years, equity market liquidity remains relatively limited in Poland. One of the reasons for this is constantly growing pension fund investment sector, where companies are obliged by law to invest most of their financial assets in the domestic securities market. Pension fund investment policy is normally to invest over the longer term, which means that such equities are effectively excluded from market turnover over a longer period.

Another reason for weak equity market liquidity in Poland is the structure of the investors who participate in WSE equities transactions. This shows a relatively low level of participation of individual investors in WSE transactions, taking into account the relatively small size of the Polish equity market.

Table 6
Domestic and foreign investor structure in Poland, 2000-2006

Participation in WSE transactions	2000	2001	2002	2003	2004	2005	2006
Domestic individual investors	50%	37%	27%	29%	38%	28%	37%
Domestic institutional investors	22%	29%	39%	40%	33%	33%	34%
Foreign investors	28%	34%	34%	31%	29%	39%	29%

Source: Warsaw Stock Exchange data

In 2000, individual investors in Poland participated in 50 percent of transactions on the Polish equity market. In the subsequent years this percentage has become less important, although in 2004 it rose again to 38 percent. In 2005 it amounted to 28 percent, in 2006 – to 37 percent.

Institutional domestic investors have created a relatively strong group of investors, whose participation in WSE transactions have been growing since 2000. This is the result of pension reform in Poland and the creation of pension funds, as well as the result of the development of investment funds, assurance companies, etc.

Another key group on the WSE are foreign investors, mostly in institutional form. The activity of foreign investors can be very important for the development of domestic capital markets, with both positive and negative consequences. In the absence of a speculative investment strategy the influx of foreign capital can be crucial for the development of domestic companies. In Poland foreign investors have taken part in about 30 percent of total equity transactions, representing a relatively important level of participation. Furthermore, this participation has been relatively stable, which means less risk for the Polish stock market. It is too early to say with any great precision, given the lack of empirical evidence, what effect Poland's EU accession has had, if any, on foreign investment, or vice versa. It is, however, clear that any "effect," if indeed there is one, had already been largely discounted in the period preceding Poland's formal accession. In the period 2003-2006, the fall in the rate of participation of foreign investors on WSE stock transactions can be related to the revival in the activity of domestic investors, both individual and institutional. In 2005 foreign investors participated in 39 percent of transactions on the Polish equity market, in 2006 – in 29 percent of the transactions.

Given the specific development of the Polish securities market, it is interesting to note the activities of Polish companies listed on foreign stock exchanges. The listing of domestic equities, on stock exchanges abroad gives foreign investors access to Polish equities and companies access to capital. The process of listing Polish equities on foreign stock exchanges began in 1997. Previously, Polish companies had not been able to list easily equities abroad on what has become known subsequently as the "European single passport." Until Poland's EU accession the optimal way to acquire equity capital was the issuance of Depositary Receipts.

Polish companies which decided to issue equities in foreign stock markets have not been numerous. Issuing stocks in larger and more liquid markets can be advantageous in terms of the cost of capital, optimizing market evaluation and promotional impacts. After Poland's EU entry, listing stocks in the European market is even more beneficial thanks to the lower cost of preparation for this operation, which has been reduced due to the "European single passport" for issuers. This is a great opportunity for domestic companies seeking to acquire large amounts of capital on good conditions.

4. INTEGRATION OF THE POLISH AND EU SECURITIES MARKETS

To date, most of the problems affecting stock markets have been dealt with by the EU's regulatory processes. Thanks to an acceleration in the regulatory process in the field of securities market (due to the introduction of the 4-tier legislative procedure outlined above) the central regulations have already passed the first and second legislative levels and are being implemented in EU member countries. There were different implementation deadlines for securities market directives; the last one was set for 20 January 2007 (Table 3).

Poland as a member of the EU was obliged to harmonize its law with European regulations and implement European rules into its national legislation. To date, Poland has implemented most of them.

The market abuse directive implementation deadline was 12 October 2004. This directive focuses on the prohibition of taking advantage of confidential information by insiders of listed companies, prohibition of disclosure of such information and recommendations based on confidential information, as well as the prohibition of manipulation of the equity markets. The discussed directive puts stress on the obligation of disclosure, by listed companies, of all information that might have an impact on the market valuation of that company. The objective of this obligation is to assure every investor equal access to information. *The market abuse* directive was implemented in Polish law on deadline (as required by the EU).

The purpose of *prospectus directive* is to harmonize requirements for the drawing up, approval and distribution of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market situated or operating within a member state. The implementation deadline was fixed for 1 July 2005. It introduces a single set of criteria for equity public offers in each EU country and has promoted usage of "single passports" by listed companies and investment firms across the EU. This "single passport" rule allows issuing equities in every EU member country based on the prospectus accepted in a firm's home country. This also concerns the activity of investment firms whose investment activities permit them to move their activities from their home country to any other EU country. Prospectus, to be internationally accepted, has to be prepared in an official EU language (preferably in English). Beside issuing equities directly in one of the EU's stock markets, European companies can issue stocks in

their home country and proceed to list them both in the home country and abroad.

This opportunity may be very interesting for Polish companies, which since Poland's EU entry have had wider access to the deeper and more liquid European stock markets without the need for additional procedures. The prospectus directive has, of course, also introduced various requirements that must be accepted across the EU as a whole. The key requirement is a single set of information to be included in the prospectus and also the procedure for the examination and approval of the prospectus.

The prospectus has to contain all information which, according to the particular nature of the issuer and of the securities offered to the public or admitted to trading in a regulated market, is necessary to enable investors to make an informed assessment of the financial position of the company and its future prospects.

The relevant authority has 10 days to accept or reject the prospectus, or 20 days in the case of an initial public offer (IPO). Once approved, the prospectus has to be made available to the public. In this period the prospectus can be published in various ways, for example in the EU press, in printed form available (free of charge) at the offices of the supervisory authority, or at financial intermediaries placing or selling securities, etc. It is possible also to publish prospectuses in electronic form on the issuer's website and on the website of financial intermediaries placing or selling the securities, including paying agents, or on the website of a relevant authority in the home member state.

Most of Poland's securities legislation was harmonized before Poland joined the EU. One of the main changes introduced into the Poland's securities law has been widening of the powers of the supervisory authority. Since 1 May 2004, the Securities and Exchange Commission in Poland has been empowered to take legal action against capital market participants if it sees fit to do so. The authority's powers were also strengthened in the area of preventing market manipulation and enhancing corporate supervision. It can, for example, request any information it deems necessary, inspect any given company's headquarters and ask for a written explanation from companies' auditor. It can also demand the suspension of trading on securities if it rules that the evidence deems such action suitable. It also has acquired certain powers of prosecution.

The implementation of the prospectus directive into Polish securities law has on the whole been positive for the Polish equity market, though it has also introduced various downsides. Above all, the positives include the fact

that harmonization of rules in force in the EU makes it easier for Polish companies to acquire capital anywhere in the EU and to list equities. Other securities market participants (investment firms, investors, etc.) can also move more freely in the EU. This gives Polish firms greater opportunities to gain new capital, often at cheaper rates than in Poland. Given that the Polish stock market is less liquid than most other European markets, allowing equities to be traded in EU markets may be more beneficial for the company and its shareholders than listing in Poland. The opportunity of dual listing of equities in Poland and abroad without any additional requirements has broadened the set of possibilities related to companies listing choices. It is also important that the prospectus directive allows electronic forms to be used to present prospectuses publicly, thus reducing the cost of public offerings of equities.

To conclude, Poland's EU entry has opened up various important opportunities for the larger Polish companies, which in turn is important for the wider Polish economy. On the other hand, opening the EU equity market to Polish companies can create risks for the local stock market. Issuing equities abroad, not in Poland, or listing them there also, may weaken competition in the Polish equity market and negatively impact its liquidity. Nevertheless, the opening of the EU market can also attract foreign companies to issue and list their stocks in the Polish market, as well as attract new investors.

Another key factor with consequences for the Polish equity market is the directive *on markets in financial instruments*. The deadline for implementation of rulings included in this directive was fixed for 30 April 2006. The directive *on markets in financial instruments* replaces the 1993 directive on investment services. The new directive applies to investment firms and regulated markets. "Investment firm means any legal person whose regular occupation or business is the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis" (art. 4). This directive harmonizes conditions and procedures for authorization of investment firms and their rights and obligations. The entry of foreign financial intermediaries to Poland (as a consequence of the "single passport" rule) puts domestic investment firms in a stronger "competitive struggle," which should in turn enforce pro-efficiency reforms in Polish investment companies. Of course, there is a risk that some of these will go bankrupt, but those that do not will be more efficient. This is crucial for the wider Polish economy.

The directive *on markets in financial instruments* also details requirements for regulated markets in term of management of the market, its organizational requirements, admission of financial instruments to trading, monitoring of compliance, etc. According to the directive, member states have to require such a regulated market to establish and maintain transparent and non-discriminatory rules based on objective criteria, governing access to or membership of the regulated market. These rules should specify obligations for members or participants arising from: the constitution and administration of the regulated market, rules relating to transactions in the market, professional standards imposed on the staff of the investment firms or credit institutions that are operating in the market, as well as rules and procedures for the clearing and settlement of transactions concluded in the regulated market (art. 42).

One of the last approved directives was the directive *on the harmonization of transparency requirements in relation to issuers whose securities are admitted to trading in a regulated market*. Member states have to take the necessary measures to comply with this directive by 20 January 2007. This directive establishes requirements in relation to the disclosure of periodic and ongoing information about issuers whose securities are already admitted to trading in a regulated market situated or operating within a member state. According to this directive, issuers have to make public their annual financial reports, half-yearly financial reports, as well as ongoing information in accordance with the rules of this directive and more detailed regulations that will be worked out at the second legislative level.

When securities are admitted to trading in a regulated market only in the home member country, the information must be disclosed in a language accepted by the relevant authority in that country. When securities are also admitted in another EU country the information has to be disclosed in the accepted language of the home country, as well by the host country's (or countries') language.

Rulings presented in EU directives as well as in regulations worked out in the second legislative level stress the creation of a single European securities market with relatively high standards. This means that the EU anticipates the introduction of single requirements for all groups of securities issued and traded in the regulated market, without differentiation depending on size of issuer or listing market. This goes mainly for the level of disclosures and other prospectus requirements. Such regulations would assure high market security for investors and other participants, but for relatively small markets

(as with the Polish one) such standards may be expensive in both cost and market requirement terms.

To conclude, the preparation of Polish stock market law to EU requirements started at the end of 1990s. Most of the changes came into force the day Poland joined the EU. In October 2005, a new securities law was introduced. There have been numerous and very detailed changes introduced but the main changes concerned the introduction to Polish regulatory principles the recognition of: prospectus forms and information included, securities offered to public requirements, stock exchange listing requirements, authorization and operating conditions for investment firms.

The process of adjustment of the Polish equity market legislation to EU *acquis* is already well advanced and most of the required changes have been introduced on time.

There are some advantages and some disadvantages to Poland's EU entry for the equity market and its participants. On the **positive** side, the most important for companies-issuers are facilities for acquiring capital in EU securities markets. Thanks to the Single European Passport, Polish issuers are allowed to market their securities in every country of the European Union without any additional requirements. Easy capital movements inside the EU territory strengthened by unification in the EU capital markets law led to the optimization of costs of capital for companies. Attainment of new investors, improvement of liquidity for company equities listed abroad, and reduction of costs of publishing prospectuses (electronic forms accepted) are other advantages for companies deciding to market their securities in one or more countries of the EU. Some Polish companies could also gain new markets for company products and services, as well as develop policy towards improvement in management of the firm. There are also some advantages relating to the integration of Polish and EU capital markets for the Warsaw Stock Exchange. Facilities for attracting new issuers and investors, and possible improvement in Polish market liquidity are the most important.

Concerning the process, there are also some **negative** consequences that may occur. For companies-issuers increasing costs related to the obligation to prepare financial statements according to international accounting standards, and (in some cases) translation of prospectuses and disclosures, rigorous listing requirements and changes in market structure, all can create some difficulties. Some disadvantages of the process also touch the Polish stock market. First, there is a risk of losing Polish blue-chips, second, there is lower flexibility in optimizing listing requirements and disclosure for

issuers (taking into account specific local conditions), which may limit the number of new issues, and finally – there is a risk of marginalization of the Polish securities market and as a result deterioration of public equity market conditions for market participants (increasing the cost of capital, decreasing liquidity, etc.)

It is also necessary to point out that the positive effects of EU integration will be felt primarily and most rapidly by the largest Polish companies, which will be able to take advantage of all the opportunities cited above. Medium and small enterprises, which are the most numerous in Poland, will take advantage of the integration with the EU in the longer perspective.

5. TAKING ADVANTAGE FROM EU SECURITIES MARKETS INTEGRATION – POLICY DIRECTION

As has been discussed, the process of integrating the Polish and EU stock markets has been successful to date in terms of the transposition of European regulations into national law. The process of integration may help create opportunities for Polish stock market participants, but may also create threats to the development of the local equity market. In order to develop the Polish stock market in a new, European, perspective some changes should be introduced. Those should stem from the Polish government and its economic policy, as well as from the Polish capital market authorities (mainly from the Warsaw Stock Exchange and the Securities and Exchange Commission).

There are some weaknesses of the Polish securities market, which should become the object of action of the authorities. This is a matter of urgency. As mentioned, one of the serious problems for the market is weak liquidity resulted from the (still) insufficient number of new Initial Public Offers (IPO) or new equity issues of companies listed on the WSE, weak liquidity resulting from (still) insufficient activity of the individual investors, as well as weak liquidity stemming from excessive activity of Polish pension funds. The objectives of such defined policies are numerous (Table 9).

Table 7

Governmental and equity market authorities' objectives towards the development of the Polish equity market

Equity market main problems	Governmental policy aim	Equity market authorities policy aim
<i>Weak liquidity resulting from (still) insufficient number of new Initial Public Offers (IPO) or new equity issues of companies listed on the WSE</i>	<ul style="list-style-type: none"> ▪ To create strong perspectives for economic growth ▪ To revise tax policy ▪ To promote privatization via the equity market 	<ul style="list-style-type: none"> ▪ Revision of equity market transactions costs, ▪ To take into consideration the necessity of attracting into the equity market small and medium size enterprises and elaborating for them a competitive offer for financial services ▪ Modern management of the equity market
	Education in the area of capital market mechanisms:	
	<ul style="list-style-type: none"> ▪ Education in schools 	<ul style="list-style-type: none"> ▪ Seminars for companies
<i>Weak liquidity resulting from (still) insufficient activity of the individual investors</i>	<ul style="list-style-type: none"> ▪ Revision of tax policy for investors 	<ul style="list-style-type: none"> ▪ Revision of equity market transactions costs ▪ Promotion of corporate governance good practices ▪ Promotion of investment opportunities
	Education in the field of capital market mechanisms:	
	<ul style="list-style-type: none"> ▪ Education in schools 	<ul style="list-style-type: none"> ▪ Courses for investors
<i>Weak liquidity stemming from excessive activity of Polish pension funds</i>	<ul style="list-style-type: none"> ▪ Revision of limits for pension funds foreign investment 	<ul style="list-style-type: none"> ▪ To stimulate liquidity from other sides, such as new IPOs, greater individual investor activity
<i>Overall – to develop the Polish equity market</i>	Privatization of the Warsaw Stock Exchange	
	<ul style="list-style-type: none"> ▪ Decision to privatise the WSE 	<ul style="list-style-type: none"> ▪ Closer international collaboration with stock markets and other institutions ▪ In the medium term – integration with one of the pan-European stock markets

Source: author's own work

Financial theory shows that the development of stock markets depends on the development of the wider economy, and that the development of stock markets can in turn promote economic growth. To drive the stock market further in Poland, a more strongly focused pro-development macroeconomic

policy needs to be developed and put into effect immediately. From the viewpoint of sustainable development, 18 years after the collapse of the communist system, Polish economic policy is still far from optimum. The rigorous pro-development economic program implemented at the beginning of the 1990s has been watered down by consecutive governments. The necessary system reforms have not been fully introduced, hampered by politicians' fears of losing votes. Social and economic activity remains low, a legacy of the previous system. The not fully accomplished systemic reforms are a key factor limiting economic prosperity.

To benefit the Polish equity market the main objective of governmental policy should be the creation of optimal conditions for economic growth. With this in mind a key element is reform of the public finance sector. The very difficult situation in this sector negatively impacts the Polish equity market via numerous channels (e.g. capital to cover the budget deficit and bond issues). In macro-economic policy terms it is also very important to develop pro-development solutions for companies (mainly for small and medium size enterprises). Better economic conditions for Polish companies would be advantageous for the Polish equity market, which needs new equity issues and greater activity of individual investors (in order to improve equity market liquidity, which is the central problem facing the Polish equity market). The government should also revise tax policy, an area that is crucial for the development of the Polish stock market.

The role of the Polish capital market authorities is also very important in the process of developing the stock market in a European direction. Privatization of the Warsaw Stock Exchange may be one of the most important tasks ahead. The Polish securities market authorities should also come up with measures to facilitate the process of integrating the WSE with one of the pan-European stock market structures, which would be optimal in the context of closer integration of financial markets in the EU. This would be beneficial for investors and issuers (listed companies) as well as for the Warsaw Stock Exchange as an institution. For issuers it would give better marketing opportunities, widening of the base of investors, as well as optimization of costs and listing requirements for companies due to changes in WSE market attitudes (along with eventual WSE privatization). This process would be very beneficial for investors as well. Starting from widening of investment opportunities through new investment instruments (products) and new investment markets, better access to European markets, the process of integration of the WSE with a bigger market structure would reduce transaction costs and strengthen liquidity on the equity market. The

process would also create chances for the WSE. Opportunities for more market participants (issuers, investors, market intermediaries), greater market capitalization and liquidity, new technologies and know-how are the most important.

The privatization of the WSE and the strategy of the WSE is currently the subject of discussion.

REFERENCES

- Asgeirsson Hallgrimur, Integration of European Securities Markets. "Monetary Bulletin" 2004/2, 50-59.
- Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation (market abuse), OJ L96, 12.04.2003.
- Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, OJ L345, 31.12.2003.
- Directive 2004/109/EC of the European Parliament and Council of 15 December 2004 on the harmonization of transparency requirements in relation about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC, OJ L390/38, 31.12.2004.
- Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC, OJ L145, 30.04.2004.
- Final Report of the Committee of Wise Men on the Regulation of European Securities Markets, 15 February, 2001.
- Financial Services: Building a Framework for Action, Communication of the Commission, COM(1998) 625.
- Financial Services: Implementing the Framework for Financial Markets: Action Plan. Communication of the Commission, COM(1999) 232.
- McCreevy Ch., Assessment of the Integration of the Single Market for Financial Services by Commission. CESR, 6.12.2004r.
- Nawrot, W., *Emisja akcji w Polsce w nowej europejskiej perspektywie. Jednolity rynek papierów wartościowych Unii Europejskiej*. Wyd. CeDeWu, Warszawa, 2006.
- Presidency Conclusions, Lisbon European Council 23 and 24 March 2000.
- Regulation of European Securities Markets – Terms of Reference for the Committee of Wise Men, ECOFIN Council Outcome of Proceedings, 17 July 2000.
- Strategia rozwoju rynku kapitałowego [Growth strategy of the capitol market], "Agenda Warsaw City 2010", Ministerstwo Finansów [Ministry of Finance], kwiecień 2004.

The Application of the Lamfalussy Process to EU Securities Markets to EU Securities Markets Legislation. A Preliminary Assessment by the Commission Services. Commission Staff Working Document SEC (2004) 1459, 15.11.2004.

Von Wogau Karl, Report on Implementation of Financial Services Legislation nr 2001/2247(INI), 23 january 2002, European Parliament Session Document.

Received: February 2007, revised version: July 2007