

In conformance with the provisions in articles 29 and 48 in the Law nr. 31/2004 regarding the Statute of the National Bank of Romania, the Order of the Ministry of Public Finance nr. 1408/22.09.2005 and the Convention of the Ministry of Public Finance and NBR, the National Bank of Romania, represented by Mr. Mugur Isarescu, Governor, issues the following

REGULATIONS ACT NR. 12/2005

regarding the secondary market of government securities administrated by the National Bank of Romania

CHAPTER I

GENERAL PROVISIONS

- a. Art. 1** – The current Regulations establish the rule of functioning for the secondary market of government securities, administered by the National Bank of Romania, the access criteria for the participants to the market, as well as any other measures necessary to ensure the right and transparent functioning of the secondary market of government securities.

Art. 2 – The current Regulations and the guidelines issued for the implementation of the regulations establish:

- a. the conditions and the procedures for transactions, exclusion and suspension of participants in the transactions;
- b. the conditions and procedures for transactions, as well as the obligations of the participants and the issuer;
- c. procedures regarding the method of establishing and announcing the prices and quotations, the types of contracts and operations allowed, as well as the contractual standards;
- d. the measures necessary to ensure the permanent and right functioning of the market, including the technical aspects, and the method to check if the regulations in force are respected;
- e. the method for managing and disseminating the to the public the information regarding the issuer, the issuances traded and the services for the access of the participants to the regulated market;
- f. the obligations of the market administrator and the custodians regarding the security and control mechanisms for the IT systems, for the protection of the investors regarding the government securities and of the confidential information;
- g. the method of ensuring the security of the data of the stored information, of the files and databases, including recovery after disasters and other similar events.

CHAPTER II

Participants

Art. 3 – (1) The following shall have direct access to the secondary market administered by the National bank of Romania: dealers on the secondary market and other entities allowed to carry out operations with government securities only in their own name and on own behalf.

(2) The following are allowed to participate on the secondary market administered by the National Bank of Romania, in their capacity as dealers on the market:

- a. primary dealers,

- b. credit institutions, as defined in art. 1 par 2, a) in the Law nr. 58/1998 regarding the banking activity, with the subsequent revisions and amendments, which are authorized by the National Bank of Romania, other than the ones mentioned under a);
 - c. financial services & investment companies, as defined in the art. 6 of the Law nr. 297/2004 regarding the capital market, with the subsequent revisions and amendments, which are authorized by the National Commission for Securities, other than the ones mentioned under a);
 - d. the equivalent of the institutions mentioned under b) and c) in the current article, authorized by the member states of the European Union and/or other states within the European Economic Area.
- (3) The following are allowed to participate to participate to the secondary market of government securities, only in own name and on own behalf: banks/credit institutions authorized in accordance with the Law nr. 58/1998 regarding the banking activity, with the subsequent revisions and amendments, other than the ones specified in paragraph 2. These ones are not allowed to open accounts for government securities on the name of an either natural or legal person.

Art. 4 – (1) The requirements for a credit institution or a services & financial investment company to participate to the secondary market of the government securities are as follows:

- a. to have a license allowing them to supply the following services:
 - trade the government securities in own name and in the name of their clients
 - intermediate in the government securities offer through subscription and placement of the government securities;
 - keep in custody and administer the government securities.
- b. to have a distinct organizational structure, specific premises need to carry out the transactions with government securities, the necessary technical equipment for transactions and custody of government securities, as it will be established in the technical guidelines to be issued by the National Bank of Romania for the implementation of the current Regulations;
- c. specific technical endowments necessary for the custodian activity;
- d. to meet the access criteria stipulated in the SaFIR depository and settlement system for the government securities;
- e. to have own norms to regulate customer procedures, the relationship with other dealers on the market, the records of the securities owned by the investors, as well as the internal control procedures for the transactions with government securities;

(2) The Participants mentioned in art. 3 par (3) must meet the criteria in par (1) with the exception of c).

(3) Primary dealers are automatically allowed on the secondary market by their capacity as primary dealers.

Art. 5 – (1) The institutions which request the access to the secondary market of government securities, other than the primary dealers, must file an application with the National Bank of Romania for obtaining the quality of participant to the secondary market of government securities; the application must be sent together with backing documents showing the applicant meets the access requirements. Within 30 days, the National Bank will send a notification to the institution which requested the access right to either approve or reject (specifying the grounds) the application.

(2) The National Bank of Romania approves the applications for access to the secondary market after consultations with the concerned supervising authority.

(3) The National Bank of Romania may withdraw the access rights of the participants which no longer meet the access criteria.

(4) The participant can also request withdrawal of the market access rights.

(5) For the situations specified in paragraphs 3 and 4, the withdrawal is effective as of the first banking day following the date when the access rights withdrawal decision is communicated by the National Bank to the participant. The National Bank of Romania has the responsibility to inform as soon as possible the participants to the market, the Ministry of Public Finance and the National Commission for Securities.

Art. 6 – (1) The primary dealers which purchase, in their own name and on their own behalf, government securities from a specific issuance on the primary market, are automatically registered as market makers for the issuance in question.

(2) The dealers on the secondary market, other than the ones mentioned in paragraph (1), can register as market makers for any issuance of government securities.

(3) In order to be registered as market maker, the dealer must notify the National Bank of Romania on the issue. The capacity as market maker becomes effective starting the very following trading day.

(4) A dealer is market maker for at least 60 calendar days for the government securities with maturity under 1 year, and at least 90 calendar days, for the government securities with maturity over 1 year.

(5) The National Bank of Romania shall inform all the market participants on the identified market makers registered for every government securities series, as well as on any changes occurred in this respect.

Art. 7 – (1) The market makers have the obligation to announce firm quotations and to make transactions based on the firm quotations announced.

(2) The firm quotations will be introduced only in the name and on the behalf of the market maker in question.

Art. 8 – (1) The administrator of the market can withdraw the quality of market maker of a dealer for a certain series of government securities, upon request by the supervising authority. For the financial investment services companies, the request will be submitted by the National Commission for Securities.

(2) The National Bank of Romania in its capacity as administrator of the secondary market, can withdraw the authorization of a market maker which fails to perform the obligations provided in art. 7, independently of the sanctions applied based on the law nr. 312/2004 regarding the Statute of the National Bank of Romania and the law nr. 58/1998 regarding the banking activity with the subsequent revisions and amendments, or of the sanctions enforced by the National Commission for Securities as supervising authority.

CHAPTER III

Operations carried out on the secondary market

Art. 9 – (1) The secondary market of government securities administered by the National Bank of Romania functions, according to the current regulations and the rules established by its administrator, on the principle of direct negotiation between dealers.

(2) The participants on the secondary market can carry out transactions in own name only through the account opened in the records of the depository and settlement system for the government securities.

(3) The transactions with government securities are carried out only the currency of issuance.

(4) The transactions carried out on the secondary market of government securities will be performed within the maturity period, in accordance with the rules of the depository and settlement system for the government securities.

(5) The margin between the purchase price and the sale price will be freely established by the report supply-demand on the secondary market of government securities.

Art. 10 – The participants on the secondary market administered by the National Bank of Romania can carry out selling and purchase transactions, Repos and Reverse Repos, transfer operations without payment and contract of guarantee with government securities.

Art. 11 – The National Bank of Romania will set through own norms the formulas for calculations and the conventions used in the transactions with government securities on the secondary market administered by the National Bank.

Art. 12 – (1) All the participants can display guiding quotations for any issuance of government securities.

(2) The participants will display firm and /or guiding quotations on the Reuters pages or on any other way agreed by the market administrator.

(3) The dealers of the secondary market have the responsibility to display firm and/or guiding quotations on the customer offices as well.

Art. 13 – (1) The market maker will introduce only one firm quotation for the issuance of government securities for which it has registered.

(2) the selling price in a quotation must be higher than the purchase price.

(3) It is forbidden to introduce a quotation or to modify an existent quotation, if the new quotation resulted in one the situations described below:

- a. the purchase price is higher or equal to the selling price of any other quotation existent on the market at the moment when the new quotation is introduced.
- b. The selling price is lower or equal to the purchase price of any quotation existent on the market at the moment when the new quotation is introduced.

Art. 14 – (1) All the firm quotations will contain at least the following information:

- a. the price expressed as yield;
- b. the quoted issuance expressed as ISIN;
- c. the nominal value quoted;
- d. validity deadline;
- e. settlement deadline.

(2) For each issuance, the National bank of Romania sets and announces the minimal quantity of government securities for which a firm quotation will be displayed.

Art. 15 – (1) The transactions among dealers, performed both on own behalf and on behalf of clients, can be concluded over the phone, through Reuters dealing or through other trading systems agreed.

(2) All the transactions concluded must be immediately confirmed in writing, by one of the parties or by both parties, using any available way.

(3) The confirmation shall include at least the following:

- a. the series involved
- b. the date of transaction
- c. the settlement date
- d. the transaction type
- e. the transaction value expressed as value to be settled
- f. the accounts that are to be debited/credited in the settlement operation
- g. the price

Art. 16 – (1) The dealers on the secondary market of government securities have the obligation to ensure execution with priority of the clients' orders and not to put in competition the clients' orders with the orders in own name and on own behalf.

(2) The employees of the dealers on the secondary market of government securities will not carry out transactions for prices outside the market, based on dishonest agreements or for personal advantages.

(3) It is forbidden for the personnel involved in the dealing activity to disclose information on transactions performed by the clients.

(4) All transactions carried out outside the working hours or premises set for the secondary market administered by the National Bank of Romania, will be allowed only in exceptional situations, with prior approval of the dealer's top managers, in respect of the applicable legal provisions.

Art. 17 – (1) All transactions concluded by the participants in their own name and on their own behalf and/or in the name of their clients and on behalf on their clients will be reported to the National Bank of Romania, in the form requested by the National Bank, no later than 18.00 hours on the day of the transaction.

(2) The data referring to the transactions with government securities will be transmitted daily through the secured electronic mail in the structure mentioned in the technical norms that will be issued by NBR by for the enforcement of the current regulations.

Art. 18 – (1) Government securities can be transferred in the following cases:

- a. portfolio transfers;
- b. mergers, separations or other similar operations involving participants to the secondary market of government securities;
- c. heritage, donations, and other similar legal acts with no costs involving the transfer of property or other rights on government securities.

(2) The dealers on the secondary market have the responsibility to request and verify the backing documents based on which the transfers with no costs are ordered by their clients.

Art. 19 – The National Bank of Romania, in its capacity as administrator of the secondary market, will give, on a daily basis, details regarding the average daily price for every issuance and the volume traded on different types of issuance.

Art. 20 – The government securities traded on the secondary market administrated by the National Bank of Romania will be deposited and settled through the Depository and Settlement System of government securities, SaFIR, in accordance with the system regulations.

CHAPTER IV

Monitoring

Art. 21 – (1) The activity of the primary dealers is monitored by the National Bank of Romania for the observance of the current regulations.

(2) If insolvency procedure is opened, or the provisions in articles 4, 6 and 7 in the current regulations are not followed, the National Bank has the right to withdraw the authorization for secondary dealer and/or suspend for 90 calendar days the access right in own name on the secondary market.

Art. 22 – (1) The National Bank of Romania will take the following measures in the case of withdrawal of the secondary dealer authorization:

- a. forbid the access to the GS secondary market starting with the date when the notification for insolvency procedure is sent, or in any other case of withdrawal of the secondary dealer attributions, with the exception of the cases explicitly provided by SaFIR system regulations;
- b. notify the other participants on the issue, as well as the regulating and supervising authority;

(2) The access rights of the financial services and investment companies can be withdrawn only after consultations with the National Commission for Securities.

CHAPTER V

Penalties

Art. 23 – The National Bank of Romania will impose penalties on the secondary dealers who fail to follow the provisions in the current Regulations, in conformance with the provisions in art. 57 in the Law nr. 312/2004 regarding the Statute of the National Bank of Romania.

CHAPTER VI

Final provisions

Art. 24 – The institutions authorized based on the Regulations regarding the operations with government securities issued in a dematerialized form approved by Order 875 of May 21, 2001 keep their attributions as secondary dealers provided they meet, no later than October 3, 2005, the access requirements described in art. 4 par (1) d.

Art. 25 – (1) The National Bank of Romania, acting as agent of the Ministry of Public Finance, will encourage the setting up of professional associations with the purpose of boosting professional standards, as well as establishing a code of conduct & ethics to be followed in the transactions carried out on the secondary market of the government securities.

(2) The participants to the primary market of government securities must respect the codes of conduct approved by the National Bank of Romania.

Art. 26 – For the institutions provided in the art. 3 par (2), d), the current regulations will apply starting with the date of Romania's admission to the European Union, with the market access requirements to be established later on.

Art. 27 – (1) The National Bank of Romania, within 90 days from the publication of the present Regulations in the Official Gazette, will issue technical norms for the enforcement of the regulations.

(2) The provisions in articles 6, 7, 8, 13 par (1) and 17 come into force on the day of the publication of the Technical Norms mentioned in par (1).

Art. 28 – (1) The current Regulations are in force as of October 3, 2005.

(2) The current Regulations will be published in Romania's Official Gazette, part I.