CAPITAL MARKET TRENDS

1.67

WHITE BOOK BALANCE SCORE CARD

Recommendations:	Introduced in the WB:	Significant progress	Certain progress	No progress
The issuance of state and municipal bonds for the financing of infrastructural and other large communal projects should be stimulated, while IPOs in the private sector should be encouraged.	2015		√	
The general legal framework for performing operations with financial derivatives should be improved, first and foremost by enabling the full implementation of standardized ISDA master agreements.	2015		√	
Further liberalization of the law is necessary in the part that incorporates the possibility for natural persons resident in Serbia to invest in securities on foreign markets, including bonds, structural products, structural deposits, ETFs and investment funds, all in accordance with European standards and ESMA guidelines.	2017			√

CURRENT SITUATION

The last fundamental capital market regulatory framework reform in the Republic of Serbia was implemented more than five years ago. Since then, there have been some further changes to the regulatory framework, with the most recent noteworthy ones made in December 2016.

Also, in October 2019, prior to the publication of this year's White Book, the Law on Open Investment Funds with a Public Offering and the Law on Alternative Investment Funds were adopted, which bring further harmonization with EU regulations in the field of investment funds. The Foreign Investors Council will analyse these regulations in detail in the next White Book edition, bearing in mind that implementation of these regulations has not yet begun.

In June 2018 the Law on Financial Collaterals was adopted with the aim of creating a legal framework for the establishment and enforcement of collaterals for securing the performance of financial obligations, and the implementation of this long-awaited piece of legislation started in 2019.

The existing regulatory framework is partly harmonized with European Union legislation and IOSCO principles, but the Serbian capital market is still underdeveloped and the regulatory framework has yet to be tested in practice, so all the potential flaws of the reforms implemented back in 2011 cannot not be duly assessed.

Despite the emergence of interesting new products on the debt instruments market, we need to note once again that the capital market in Serbia is still developing and that regulatory reforms alone are not enough to stimulate its growth.

POSITIVE DEVELOPMENTS

As the most important new development we highlight the adoption and start of implementation of the Law on Financial Collaterals and the most recent amendments to the Law on Bankruptcy aimed at harmonizing the insolvency regulations with the regulatory framework for financial collaterals. The implementation of both laws commenced in 2019. In addition to regulating the establishment and realization of collaterals for the performance of financial obligations of financial market participants, another very good feature of the law is that it explicitly allows close-out netting not only under financial collateral agreements, but also under other financial agreements, including agreements on financial derivatives (which should have a positive impact on the financial derivative market, including in relation to the International Swaps and Derivatives Association (ISDA) and other standardized agreements). Although the law allows only certain types of parties to enter agreements on financial collaterals (especially as it is not applicable to corporations in general), we commend the fact that this piece of legislation has been finally adopted and we hope that its practical implementation will not be problematic.

A very significant event was the issuing of RSD 2.5 billion worth of dinar bonds by the European Bank for Reconstruction and Development (EBRD) in December 2016. The issuance of these bonds significantly boosted investors' confidence in Serbia's capital market and facilitated the further "dinarization" of the domestic economy.

We also commend the most recent changes in the Operating Rules of the Belgrade Stock Exchange made in 2018, including, among other, the liberalization of conditions for the performance of block transactions. Also, we commend a listing support initiative called "IPO Go! Programme" – a project of the Belgrade Stock Exchange financed by the EBRD Shareholder Special Fund (EBRD SSF). In July 2018, the first prospectus for initial public offering and listing of shares of a Serbian private company was published at the Belgrade Stock Exchange.

We commend the adoption of the Law on Alternative Investment Funds and the Law on Investment Funds. The Law on Alternative Investment Funds (which is based on the relevant EU legislation) sets out a new type of more "flexible" funds – venture capital funds and private equity funds that should positively affect micro, small and medium enterprises especially in innovative business areas.

The legal framework for trade in financial derivatives took a clearer shape. The National Bank of Serbia (NBS) has issued, and already amended, its Decision on Performing Activities with Financial Derivatives, in line with its mandate set out in the Law on Foreign Exchange Operations. In connection therewith, we commend the most recent amendments to the Law on Public Debt, however, the Government should specify detailed conditions regulating transactions in financial derivatives of the Republic of Serbia.

We note the readiness of competent authorities, especially the Securities Commission, the Central Securities Depository and Clearing House (CRHoV) and the NBS, to enable the further growth of the capital market in Serbia by adopting the required by-laws and issuing relevant opinions. In this context, we commend the Securities Commission for inviting a discussion on the regulation of crypto property rights in Serbia in March 2019.

REMAINING ISSUES

We have to note that identifying all of the remaining legislative issues related to the capital market is still very difficult as the capital market in Serbia is rather underdeveloped, i.e. shallow and insufficiently liquid. Municipal bonds are still rare (despite all the advantages of municipal bonds, only several municipalities/cities have issued municipal bonds so far). The same applies for corporate bonds. On the other hand, the regulatory framework should be improved to enable transactions with more complex financial instruments, including the regulatory framework governing securitization in Serbia.

Despite some positive developments in this field, the regulatory framework and practice still seem to be insufficiently precise and underdeveloped for performing financial derivative operations in accordance with the International Swaps and Derivatives Association's (ISDA) master agreement. Also, it is our opinion that further liberalization is needed regarding the possibility of natural persons resident in Serbia to invest in securities on foreign markets, including the full range of bonds, derivatives, structural products, structural deposits, ETFs and investment funds, all in accordance with the European laws based on European Securities and Markets Authority (ESMA) guidelines.

Non-residents are still not allowed to perform transactions with financial derivatives (traded and/or concluded on the over-the-counter market or the multilateral trading facility (MTF)) with non-bank residents which involve payment/collection in dinars. This rule prevents non-residents from hedging the currency risk for non-bank Serbian borrowers in the local currency.

FIC RECOMMENDATIONS

- The issuance of state and municipal bonds for the financing of infrastructural and other large communal projects should be stimulated, while IPOs and issuance of corporate bonds in the private sector should be encouraged.
- The general legal framework for performing operations with financial derivatives and more complex financial instruments should be improved.
- Further liberalization of the law is necessary in the part that incorporates the possibility for natural persons resident in Serbia to invest in securities on foreign markets, including bonds, structural products, structural deposits, ETFs and investment funds, all in accordance with European standards and ESMA guidelines.