

# THE TRANSPARENCY AND INTEGRITY OF THE CAPITAL MARKET IN ROMANIA

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**Abstract:** *Capital market regulations at EU level are focused on applying and compliance of the Member States with the principles of investors' protection on the capital market, as a practical and effective measure for increasing the credibility in the public eye of the investment transactions on the capital market, to stimulate resources available through the capitalization of financial instruments on the market and therefore to ensure the capital flow on the market in correct, real and equitable conditions for all the participants, so that the price on the capital market be subject to the natural rule of supply and demand.*

**Key words:** *capital market, investor, financial instruments, transaction, transparency.*

## 1. Introduction

In the double aim of protecting investors and ensuring the smooth functioning of securities markets through market transactions that comply publicity and ensure the creation of a real price based on supply and demand on the market, ensuring the transparency of transactions and the obligation of regulators and control at national level from the authorities in order to ensure that the rules laid down for this purpose, at Community and national level are applied to the capital market participants, thus become general rules in the European directives.

A constant at Community level, whether we refer to Directive 2004/39/EC [6], Directive 2003/6/EC [5], Directive 2004/109/EC [7] or Directive 2013/50 / EU [8], the issue of transparency on the capital market by ensuring and complying with the publicity regulations and reporting

information on the market participants is constantly approached by identifying new measures and implementation procedures.

The degree of transparency of a capital market influences not only the development of transactions in terms of legality and equal treatment, but increases public confidence in that market, enhances market credibility and that of financial instruments, stimulates investment in the capital market, actively supports economic development and decreases the incidence of unlawful acts within the market.

To enable investors or market participants to assess at any time the terms of a transaction with shares that they intend to carry out in order to form the investment decision and in order to be able to verify afterwards the conditions under which it was executed, common rules are necessary regarding the transparency of market operations among the Member States and the capital markets regarding

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the publication of details concerning the transactions with securities and the disclosure of details of current opportunities of transactions.

## **2. Transparency rules of the capital market in the Community.**

At community level, it has been held that it is necessary to establish harmonized regulations on market transparency and investor protection to ensure the real integration at European level, of the national markets of the financial instruments [7] to increase the effectiveness of the overall process of price formation for these instruments, based on the actual supply and demand on the market, and not least to assist the effective observance of the performance bond.

Since 2004, at Community level, it was found that in order to ensure an appropriate level of transparency and uniformity on all capital markets, a necessary element in achieving the single domestic market, it is necessary to establish a Community legal framework for the Member States to work towards the harmonization of the transparency obligations with those set by Directive 2004/109/EC [7].

According to paragraph 1 second sentence of the Preamble to Directive nr.2004/109/CE, the dissemination of accurate, complete and delivered at the right time information regarding the issuers of securities, guarantees on long-term the confidence of investors and allows assessment of economic performance and assets of issuers, in full knowledge, which leads to strengthening investor protection and to an efficient capital market.

Under Directive 2004/39/EC [6] Article 25 - Article 30, the idea of capital market transparency is associated with market integrity and among the measures listed are the publishing of information regarding the

financial instruments, of the information concerning transactions (the volume and the time of conclusion) and keeping the information about transactions carried out by investment companies for a minimum of five years, during which the national regulatory authority may at any time require the provision of data and/or detailing them (Article 25 paragraph 3 Directive 2004/39/EC).

If by providing information about financial instruments, especially information about their price is important

for market development, the information about issuers also ensures transparency prior to trading, which is useful from the perspective of investors to form investment decisions through publishing and maintaining information related to the operations performed, including the identity of the investors, it provides a post-trade transparency, through which on the one hand, the national regulatory authority has the possibility to verify the legality of transactions, and on the other hand boosts investors' confidence in the market.

In the pre-trade period, from the perspective of the Community provisions, it is required to publish at least buying and selling prices of financial instruments and the depth of the trading interest at those prices, information that will be made public through the technical system of the regulated market itself during normal trading, as after trading it is required by the regulated markets to make public information on price, volume and time of transactions executed, also at a minimal level, information to be made public in real time (Articles 44 and Articles 45 of Directive 2004/39/EC), as, given the fact that investors to whom this information is intended do not necessarily have expertise, in article 28 of Directive 2004/39/EC to be also provided the easily accessible format of this information to the market participants.

The same degree of transparency and integrity must be assured both on the regulated markets and for the multilateral trading systems (MTF).

Also, the Community rules delegate the national regulating and supervision authorities of the domestic capital market, the power to establish effective procedures depending on the specific of the market and the national legislation concerning the access to the information provided by investment companies.

### **3. The transparency of the capital market in Romania provided by Law no.297/2004**

The Romanian legislator taken both measures in the primary regulation (Law no.297/2004 on the capital market) and in the secondary level one (regulations and guidelines adopted by the regulatory and control authority of the capital market, currently the Financial Surveillance Authority (F.S.A.), by taking over and reorganizing the National Securities Commission under Government Emergency Ordinance no.93/2012) concerning capital market transparency, by establishing the obligation of the market participants to provide real information on deadlines, on the financial instruments held and the operations carried out, and by regulating prudential rules (article 22, article 25 Law no.297/2004) and rules of conduct (article 26, article 28 Law no.297/2004).

Thus, the authority of supervision and control of the market, the Financial Surveillance Authority (F.S.A.) previously National Commission of Transferable Securities (NCTS), follows the observance of the regulations on market transparency both in terms of pre-trade information, as well as post-trade by market participants for the legal protection of investors and to

ensure the compliance to regulations regarding transactions.

In case the regulatory and control authority observes a non-compliance with the market rules, to ensure transparency for the participants in the transactions, under Art.272 of Law no.297/2004 the contravention liability of the entity concerned is engaged, in which situation the regulator, which according to Art.274 has the competence of official examiner, rules sanctions provided by Art.273 of the law.

Relating to the offenses in the capital market domain, we must specify that they will fall under the contravention regulations laid down by the Government Ordinance no.2/2001, with the difference brought by the Government Emergency Ordinance no.32/2012, art.203 pct.66, on the three-year limitation for the prescription of enforcement and execution of the sanction, a period calculated from the date of committing the offense.

Thus, although the rules of the Government Ordinance Offences no.2/2001 regarding the contraventions establish a special period of limitation of six months, by regulating the general limitation period in case of contravention to three years from the date when the offense was committed, the Romanian legislator answers the general principle of transparency of the capital market, thus increasing the incidence of detection and sanctioning of the deeds that violate the rules on reporting and publicity of information, as well as the prudential rules, set of measures which ensure the transparency of the capital market.

Also in agreement with the sanctioning regime for offenses - Article 5 of the Government Ordinance no.2/2001 - Law no.297/2004 establishes as a special law, the main sanctions in the form of a warning or fine, as the offenders are generally legal entities, as well as

additional penalties concerning the withdrawal or suspension of authorization or disqualification to hold a function, to conduct business or to provide a service for which marketing authorization is required.

Although in terms of the impact that the sanctions have on the offender, whose authorization is withdrawn, as an additional penalty to the main one, a fine, the liquidation procedure of the legal entity is implicitly triggered, for the sole activity was the one related to the activity authorized on the capital market, the more serious sanction appears to be the complementary one, but the main-additional rapport of the sanctions envisages the main object of protection through contravention liability, while the complementary sanction has a preventive role in relation to the incidence of the contravention phenomenon.

From the perspective of individualization and enforcement of administrative sanctions, we point out that for the same offense qualified as contravention in the capital market regime, the regulator may impose sanctions both to the legal entity as a market participant and to individuals acting on behalf or on account of the legal person, performing specific functions in the internal organization of the intermediary/market operator/issuer, according to their individual competence and authorization.

In the recent activity of NCTS, the body in charge of control and sanctioning of offenses, we identify from this point of view the sanctioning measures ordered by NCTS in case of financial investment services company WBS Romania, by adopting Ordinance no.367/01.11.2012 regarding sanctioning WBS Romania SA [13] and Ordinances no.368 - 371 of 01.11.2012 regarding penalizing individuals with leadership positions in SSIF WBS Romania SA and those

entrusted with the evaluation and management of risks at the offender society [13].

According to the definition of regulated market - Article 125 Law no.297/2004 - one of the cumulative legal requirements in order to establish the character of regulated market is complying with the reporting and transparency requirements to ensure the investors' protection under this law, as well as the regulations issued by NCTS according to the European legislation.

Likewise, the operator of a regulated market is also subject to compliance with the rules on transparency, so at the time of initial authorization, in order to access the capital market, it is verified by NCTS that the technical specifications of equipment and resources ensure the market transparency, the smooth developing of transactions and investors' protection be met under paragraph 1 of Article 126 in relation to Article 127 of Law no.297/2004 letter d.

Subsequently, throughout the activity of the market operator, provided that the conditions of authorization are supervised by the NCTS, and if conditions are not met or if it is determined that the market operator violates the law, including the rules on publicity and transparency, the obligation under Article 133 paragraph 1 of the law, Article 128 of Law no.297/2004 provides as specific penalty the withdrawal of authorization by the NCTS.

The conditions of reporting requirements and information to be communicated directly to the regulatory administrative authority, respectively to the public are detailed and secondarily regulated by the National Securities Regulation Commission in Order No.2/2006 [10].

Thus, in the pre-trade stage, the general obligation of transparency on a regulated market rests with the market operator and concerns continuously making available to

the public throughout the normal trading the current prices and current quantities of buying and selling for the financial instruments admitted to trading on the regulated markets managed by it, according to art. 46 related to article 48 of the NCTS Regulation No.2/2006 [10].

The post-trade obligations in order to ensure transparency aim at presenting a true and fair image of the exchange contracts concluded by the end of the trading session, thus creating a still image at market level, the trading volumes, thus permitting the investor to check the execution of its trading order submitted to the respective trading session, while potential investors create the preliminary picture of supply and demand for their future trading shares, positively encouraging them in their decision to invest. [1]

If among the financial instruments traded on a regulated market and the ones on an alternative trading system there are significant differences regarding the economic conditions required for the admission to trading, in relation to the operating requirements of the market and execution of trading orders, we may say that the same legal requirements and conditions for publicity and conduct of market participants are set.

Similarly, the transparency conditions imposed on the regulated market by article 125 of Law no.297/2004, and the alternative trading system (equivalent to the multilateral trading system of the Community rules - MTF), under Article 140 of the law, must ensure sufficient information regarding the orders and transactions concluded in accordance with the minimum standards of transparency.

In case of alternative trading systems, given that their operating rules, including the trading procedures and procedures relating to the information made available

to participants and the public before and after trading are set at tertiary level by the system operator, the minimum standard of transparency referred to in Article 140 of the law is the standard set by the regulator in the rules on the supervision and operation of the alternative trading systems, as secondary level rules that are granted to the principles of operation and trading in the law.

Thus we find similarities between the texts of NCTS Regulation No.2/2006, respectively between the provisions of article 44-article 46 and article 53-article 60 for regulated markets, on the one hand, and article 64-article 68 and articles 71-article 73 for alternative trading systems.

Regarding the importance of the regulation of publicity procedures of the information on the rules of functioning of an alternative trading system through its own regulatory rules of the system operator, rules subject to acknowledgement by the administrative authority in order to adopt the establishment of the alternative trading system by NCTS under article 62 and article 64 of the NCTS Regulation No.2/2006, in relation to article 139 and article 140 in Law no.297/2004, we have the example of NCTS Decision no.1507/23.07.2008 on the establishment and administration by SC Stock Exchange Bucharest SA, as the operator of the system, of the alternative trading system Alternative Market-RASDAQ [4], through which, although in article 1 and article 2 the establishment of RASDAQ as an alternative trading system is approved, this approval is given under the precondition of transmitting to NCTS by SC Bucharest Stock Exchange SA of the documents listed in article 3 of the Decision, respectively of the amendments to be made to *the Bucharest Stock Exchange SA as system operator, code comprising the operating rules.*

As such, because SC Bucharest Stock Exchange SA did not comply with the conditions set by NCTS Decision no.1507/2008 and did not communicate the changes requested, including the required changes of examples of communication means on the progress of transactions, Decision no.1507/2008 did not produce legal effects so the establishment of RASDAQ alternative trading system was not completed in 2008.

Although at the end of 2008, SC Bucharest Stock Exchange SA sued the regulatory administrative authority requiring that the institution be compelled to issue the decision approving the establishment and administration of the alternative trading system of BSE, respectively the authorization of the BSE regulations corresponding to the alternative trading system and of the plaintiff as system operator, considering its application and the code of Bucharest Stock Exchange SA as system operator, grounding the unjustified refusal of settling the request to set up the alternative trading system, both the first trial court, Bucharest Court of Appeal by means of Sentence no.996/10.03.2009 and the court of appeal, the High Court of Cassation and Justice in Decision no.557/04.02.2010, rejected the statement of claim, bearing in mind that in relation to the content of NCTS decision no.1507 of 23 July 2008, the unjustified refusal of the defendant to settle the claim made by the applicant SC Bucharest Stock Exchange SA cannot be considered given the fact that the provisions of art.1 of this decision approve the request made by BSE, it is true, under the condition precedent that has not been fulfilled by the applicant itself.

Subsequently, NCTS Decision no. 534/21.04.2010 regarding the establishment and administration by SC Stock Exchange Bucharest SA, as the

operator of the system, of the alternative trading system ATS-RASDAQ [3], the establishment of RASDAQ as the alternative trading system of the BSE has been established and began operating legally as alternative trading system through the approval by NCTS of the *Bucharest Stock Exchange SA Code - system operator*, to which amendments were brought compared to the form presented in 2008 and was modified also by the NCTS when submitting the application for approval of the ATS in 2010, so the Annex to Decision no.534/2010, the conditions of transmission and information of the system operator are covered in detail in Section 2, Chapter VIII of Title II and Chapter IX entitled *Pre and post trade transparency* of Title III in the Stock Exchange Code.

Regarding the obligation to ensure the transparency of the central depository's activity on the market, art.153 paragraph 1 of Law no.297/2004 delegates the supervisory and regulatory competences also to the control authority, as for this participant on the capital market, the conditions of authorization and maintaining them during the activity relate to ensuring market transparency and investor safety, in which sense the NCTS may request the depository to periodically send data, information and documents, may organize inspections at the premises of the central depository and may request that it be provided with all necessary documents, stating the procedures and deadlines for their delivery by the depository.

With respect to the information held by capital market intermediaries, the companies of financial services, and those held by the organizations of collective investment of securities, as well as the obligations to disclose such information, in accordance with the regulations of Directive no.2004/109 / EC [7], both in

NCTS Regulation no.32/2006 [8] and the Government Emergency Ordinance no.32/2012 [9], rules of transparency and integrity are provided, the two notions being used complementarily and the transparency obligations being circumscribed to the market surveillance activity by the administrative authority.

Thus, Chapter VIII (article 148 - article 166) of NCTS Regulation no.32/2006 includes requirements for market transparency, integrity of financial instruments and transaction reporting, as well as rules of criminalizing the fraudulent practices in accordance with the incrimination regulations provided by Art.297 of Law no.297/2004 concerning, among other facts, the incorrect, incomplete or exaggerated information concerning a financial instrument sent to the customer in order to determine him/her to carry out transactions in that financial instrument (Art.163 letter j of NCTS Regulation no.32/2006).

Similar to the obligations of market operators regarding the information on transactions with financial instruments by reporting to Financial Surveillance Authority (FSA), in the past to the NCTS, the companies of financial investment services have the same obligation to report on all transactions with financial instruments which they have carried out either on their own account or on the account of customers, according to art.148 and art. 149 paragraph 2 of Regulation NCTS no.32/2006.

The terms and conditions regarding the reporting of investment companies to the administrative authority, which thus provide, in conditions of transparency, the monitoring of the activity undertaken by these companies on the market.

The information and reports made in the above conditions must be *fair, accurate, clear and adequate so as to provide a complete and in no way misleading*

*information* (Article 127 NCTS Regulation no.32/2006).

The rules of transparency and publicity of the transactions with financial instruments undertaken by the collective investment organisms included in Government Emergency Ordinance no.32/2012 cover both informing through periodical reports on some aspects of collective investment undertakings (UCITS) as well as advertising the prospectus of issuing the collective investment undertaking (Articles 92 and 93 of Government Ordinance no.32/2012).

A special type of information that must be brought to the investors' notice under the influence of the principle regarding transparency on securities and market transactions is key information for investors, whose legal status is regulated primarily by Ordinance no.32/2012 art. 98. Investment societies which self-manage as well as investment management companies shall prepare and provide key information to investors in the pre-contractual stage for each UCITS managed. The statutory phrase "key information" refers to the appropriate information on the essential characteristics of the UCITS such as:

- a) identification of the UCITS;
- b) a brief description of the investment objectives and investment policy;
- c) past performance presentation or, where appropriate, provisions regarding the results;
- d) costs and expenses; and
- e) risk profile / return on investment, including appropriate recommendations and warnings on the risks associated with investments in the UCITS concerned.

This information which is to be provided to investors must help the investors so that they are able to understand the nature and risks of UCITS and, therefore, to take investment decisions on an informed basis.

Even if securities issuers do not participate in market transactions and the functioning of their own business, according to the object of activity in the Statute, is not subject to approval or supervision of the administrative authority, among their legal obligations in relation to the securities they issue are also the obligations related to reporting and informing the market investors and potential investors, in order to ensure an equal treatment of investors concerning their securities they issue for trading.

These reporting obligations are subject to the rules of the capital market (art. 224-art.243 Chapter V - The transparency of the issuers in Law no.297/2004) and are different from the obligations to inform and report to the shareholders of the issuing companies, obligations laid down by the regulations of corporate law (in this respect we iterate the provisions of article 111, Article 140 or Article 185 of Law No.31/1990, law firms republished).

Given the fact that some investors may already have the quality of shareholders in a company issuing securities admitted to trading, in which quality they have access to information about the issuing company by attending shareholder meetings, it would put them in a privileged position in relation to potential investors, given that at the time of listing they were not shareholders.

However, trading of issued securities may mean, in case of stock companies, the acquisition, loss or enhancing of shareholder position in the society and the rights associated.

To eliminate these inequalities between investors and to ensure equal treatment, Law no.297/2004 starting from reaffirming the equal rights given by a financial instrument to all its owners, from the equality among shareholders (Law No.297/2004, article 224 paragraph 2) guarantees the access to information to all

participants-investors (article 224 paragraph 5-8 of the Law) [1].

In order to properly inform investors of securities issued for trading, by virtue of the market transparency principle, the compulsory reporting requirements for entities issuing securities are strictly regulated at primary level by law no.297/2004, concerning limits on publicity, recipients and content of reporting, but also at secondary level through the adoption of NCTS Regulation No.1/2006 [12].

Based on the information that must be reported to the public, without delay, within 48 hours of any new events occurring in the issuer's activity, which was not made known and which can lead to changes in share price due to the effect these events have on the economic and financial situation of the issuer or on his/her whole activity, according to article 224 paragraph 5 of Law no.297/2004, information whose importance the legislature appreciates considering the influence they can have on the price of securities without detailing other features of such information, there are special reports regulated depending on the nature of privileged information, which are subject to reporting under article 226, paragraph 1 of Law no.297/2004 and article 113 letter A in the NCTS Regulation No.1/2006 (which contains an illustrative enumeration of such information without being exhaustive), or reports of legal documents concluded by the issuing company with directors, employees, controlling shareholders and people involved with them, whose cumulative value is at least equivalent in RON to EUR 50,000, all these reports must be addressed to the public, but also to the administrative authority regulating the market.

Depending on the regularity of reports, Articles 227 of Law no.297/2004 regulates the periodic (quarterly, half-yearly or yearly) reports to be made by the issuers of



securities and made available to the administrative authority in order to ensure market surveillance and control, to the public, in order to form the investment decision in securities to be traded, but also to the market operator, as on the basis of this information, the market operator must also complete their reports with the information provided such as, for example, imperative legal obligations.

Depending on the information reported to the administrative authority in connection with securities, but also on the completeness or incompleteness of reporting, in order to ensure investor protection and market integrity on which securities are traded, the National Securities Commission may:

- a) require the issuer to provide all information that could affect the valuation of securities;
- b) suspend or require the market operator to suspend trading of securities if the issuer believes that the situation is such that trading would be detrimental to investors;
- c) take all measures to ensure that the public is properly informed through verification of the issuer's documents through their own structures;
- d) in the worst case, to decide that the securities admitted to trading on a regulated market to be withdrawn from trading provided it considers that, due to special circumstances, it can no longer maintain the integrity of the market for those securities.

Thus, the measures taken by the supervisory and control authority of the capital market are based on information provided by issuers, which is received under the benefit of their authenticity and accuracy with the issue in fact and law, of their presumption to confirm the issuer's will, such that in case the issuers' information and reporting are not real, accurate or complete, the consequences of

the measures ruled are directly supported by issuers.

Regarding the fact that the regulator will take measures according to the information received from the issuers of securities, taking into account the presumption of conformity of the information with the issue in fact and law of the legal entity that supplied the information, according to Article 127 NCTS Regulation no. 32/2006, we iterate the case of a joint stock company which, communicating NCTS, under Article 234, paragraph 1 letter d of Law no.297/2004, a decision of the general meeting of shareholders of 09.09.2004 on the withdrawal from trading of their securities, obtains the withdrawal from trading of its own shares in RASDAQ system and the deregistration of securities from the NCTS inventory through Decision no.2234/23.08.2006 (published in NCTS Bulletin no.34/2006), although at the date of filing the application at NCTS, that decision of the general meeting had been cancelled by the Bucharest Court through Civil Sentence no. 724 of 10 February 2005 which remained irrevocable through the commercial decision of Bucharest Court of Appeal no. 705 of 28 October 2005.

Although the situation by right of this decision of the Company Shareholders General Assembly was different from that presented to the NCTS in the application, given that the information was not true, complete and correctly notified to the authority, the NCTS Decision being issued and entered into civil circulation has been dismissed and the appeal formulated later by the issuing company against Decision no.2234/2006, so the only legal solution to reinstate the issuing company on a trading position on the RASDAQ market was issuing an action for the annulment of the NCTS decision no.2234/2006 by the administrative court under article 1, paragraph 6 and Article 18 of Law

no.554/2004, by promoting administrative action by the aforementioned issuer, through the sentence of the Bucharest Court of Appeal no.1150/02.05.2007 [14].

#### 4. Conclusions

Having in view the fact that the investment decision involves identifying viable and timely measures of capitalization, after the investor gained confidence in the capital market and trading system, it is obvious that the best decision can be taken knowing and analyzing all economic and legal aspects regarding securities subject to the transaction, the financial situation of the issuer of securities, regarding the economic and market history of the issuer and, implicitly, the securities.

The most important consequence of the right to information respected by the issuers is the development of issuers and their financial instruments' attractiveness to investors and the capitalization, of the companies, from where increased liquidity of those shares admitted to trading results.

And this information is available to public investors only if market participants fulfil their obligations of publicity and of reporting their own information.

Between the degree of reality, fairness and complexity of public reporting regarding securities, the situation of market participants and of issuers and the volume of transactions, through which we can measure the transparency of a localized market, but also of the national system, and investor confidence and stimulation of investment capitalization on the market, there is a directly proportional relationship, because on the one hand, a high level of information provides accurate and economically viable decisions, implicitly bringing benefits to investors, increasing their confidence in that market, on the other hand investors' security that at any

time they can find accurate, true and complete information relaxes suspicion and increases confidence that their trading orders are properly accomplished, having the expected result.

Market surveillance is the main attribute of the regulatory administrative authority, in Romania's case it's today's Financial Regulator, for by means of this function, market transparency is ensured and by virtue of it the obligations to provide information and publicity are being covered.

In this respect, we agree with Professor Gheorghe Piperea [2] according to whom trading markets, covering the unindividualized investor, the mass of potential investors, through market operators they become entities asked to implement and to guarantee access mechanisms to ensure the non-discriminatory access to the market and an equal treatment of participants, for which the minimum limits of reporting and public information set at EU and national level, have jurisdiction to determine its own procedures and reporting and publicity measures to ensure the transparency of transactions depending on the specific market.

To ensure the protection of securities and trading markets, the legal rules contain a set of provisions to guarantee market transparency, the equal treatment of participants, guaranteeing the integrity of market operations and investors' protection, as a positive normative dimension, in conjunction with the laws that define and criminalize practices and mechanisms of market manipulation, which facilitate the creation of illicit trading benefits to certain categories of investors through the violation of conduct rules and measures to ensure the integrity of the market, accounting for the negative normative dimension in terms of the prohibitions set to be observed by market participants.

Capital Market transparency is a *sine qua non* condition for the operation of any regulated market, given that market transparency is a necessity to ensure the equality of all capital market participants, and thus the primary means of protecting investors [2].

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