

Analysis of the Evolution of Meeting Requirements Imposed by MSCI for the Major Companies Listed on Bucharest Stock Exchange

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Abstract. *This paper is an analysis of the evolution of the Romanian candidate companies, based on the Morgan Stanley International Index (MSCI) criteria. The paper will offer a technical analysis on the evolution of Annual Traded Value Ratio (ATVR 12M) levels, Market Capitalization and Free Float Market Capitalization, (Mcap FF), of the Banca Transilvania, OMV Petrom, BRD Group Societe Generale, and Romgaz, companies that in 2017 were the main Romanian candidates to meet MSCI criteria. The paper will take into consideration data from January to December 2018. Based on the updated evolution, the paper is revealing what are the challenges and opportunities that are likely to influence the important Romanian companies' economic evolution, as well as what measures could be taken to enhance the companies' evolution and eventually lead them to reaching the minimum ATVR and Market Free Float Capitalization requirements imposed by MSCI. In 2018 a study was made analyzing these companies and the paper addressed the chances of the Romanian Capital Market to be upgraded to Emerging Market status. The study showed that increasing liquidity is the most difficult factor to be achieved by Romanian companies listed on the Bucharest Stock Exchange. Romania has the potential to be upgraded to the Emerging Market status if at least three companies met the minimum requirements, including the Annual Traded Value Ratio, requested by the MSCI. Following a technical analysis using the MSCI methodology, it was found that until the first part of 2018 three companies met the ATVR target of at least 15%, such as Romgaz, Banca Transilvania, BRD Group Societe Generale. OMV-Petrom reached only 12.62%. The company needed an increase in the total volume of the total stock market to bring the ATVR level to at least 15%. As for recommendations, BRD Group Societe Generale needed to increase the Free Float market capitalization by 1.0534% that should reach the minimum required by MSCI USD, 763 mln until mid-2018. Another recommendation, by increasing offer by listing more companies on the Bucharest Stock Exchange and increasing demand by attracting as many retail investors as possible and improving financial literacy, trade volumes would consistently grow. Data was collected from the Bucharest Stock Exchange, Trading Statistics section, and daily reports. This was computed the Annual Traded Value Ratios for 12 months (ATVR 12M) and ATVR for 3 months (ATVR 3M) for each company. The candidate companies included Romgaz, OMV-Petrom, Banca Transilvania, and BRD-Group Societe Generale. The methodology used is in accordance with the MSCI standard calculations.*

Keywords: *Morgan Stanley Capital International; MSCI methodology; ATVR-Annual Traded Value Ratio; Upgrading to the Emerging Market Status; Market Capitalization (Mcap); Free Float; Market Capitalization Free Float (Mcap FF); Monthly Median Traded Value(MTVR); Traded Volumes; trading; Retail Investors.*

Introduction

The analysis of the evolution of meeting requirements imposed by MSCI for the major companies listed on the Bucharest Stock Exchange was undertaken in order to study the companies' trends in fulfilling the MSCI requirements and the context in which the Romanian Capital Market upgrades to the status of an emerging market. This topic was also chosen because the Bucharest Stock Exchange is a strategic hub that connects the individual investors and institutional Investors with the listed companies. The study was undertaken to develop an understanding of how long-term strategies favor a better positioning of the Romanian capital market.

At the moment, the capital market is an opportunity for those who develop their business and for individuals who want to invest in the stock market. Bucharest Stock Exchange is the most important representative of the Romanian capital market that functions in two markets: the regulated and the junior, AeRO. The AeRO Market provides trading opportunities for SMEs and was launched on February 25, 2015. Bucharest Stock Exchange's revenue is generated by mainly three business sectors such as post-trading services, registry services, and trading services.

The Bucharest Stock Exchange is one of the stock markets that, although it has impressive growth in the total capitalization reaching EUR 20 bn, has a trading level that does not yet have equal regional performance. The Bucharest Stock Exchange's shareholder structure currently shows that around 72% of legal entities hold shares, and around 13% are individual shareholders with shares. The most important institutional shareholder is NN Private Pensions Group, SIF Transilvania and EBRD. In 2019 end of February, the pensions total assets (Pillar II and III) hit EUR 10.9 bn, 3% higher than 2018 (BVB, 2019).

Following a successful inclusion on the FTSE Russel watch list in September 2016, Romania continued its major ambition to upgrade to the status of an Emerging market by marking its presence on the MSCI as well as other important international indices such as S&P. While the trading volumes remained below market potential, the transaction costs, despite a decreasing trend, are still higher compared to other regional neighbors. This makes it essential to take measures that stimulate the attraction of retail and institutional investors in order to increase market performance. There are quantitative conditions imposed by MSCI, such as a stock market capitalization of \$ 1,375bn, Free Float market capitalization, recognized as Mcap Free Float of \$ 763m and a 12/month annual trading rate (12M-Annual Traded Value Ratio) of 15 %.

At least three companies must meet these criteria in order to bring the capital market to the next level. There are also qualitative conditions that the Romanian capital market improved such as level of trading, securities lending, and regulatory transferability. The merger with the Derivative Stocks Exchange SIBEX boosted the overall market capitalization of the Bucharest Stock Exchange. This led the Bucharest Stock Exchange onto a stronger position on the capital markets in relation to regional peers. Bucharest Stock Exchange is remarkable through its financial and investment education platforms, its own capabilities and various opportunities that attract retail investors. Since the Romanian market was maintained on the list of countries with the potential to upgrade to the Emerging Market Status, following an improvement in the broad market liquidity, in 2019, the FTSE Group upgraded the Romanian capital market from the "not met" to the "restricted" status. The single outstanding criterion that should be achieved refers to upgrade liquidity one more time; from "restricted " to "Met". (BVB,2019). Once upgraded to the Emerging Market status, the benefits lead to the increase of the value of the investments compared to the frontier markets. Also due to increased demand, the companies' EBIT/EV multiples will improve.

The Emerging Market funds are more than 120 times bigger than the Frontier Market funds showing the benefits for the local capital markets, once upgraded. In addition, for example, there is no fund following Frontier Markets ETFs, provided by FTSE.

Once volumes have grown from this perspective, trading fees will possibly decline to lead to the better positioning of the capital market among regional peers.

Methodology

In order to understand the evolution of the transition to the emerging market status, five companies were analyzed from the level of medians traded between January and December 2018 and the first part of 2019 to the ATRV annual traded values ratios (at 12 months and 3 months). The analysis was based mainly on the MSCI specific methodology for January-December 2018 and the first part of the year 2019. This is an analysis of the evolution of the Romanian candidate companies based on the Morgan Stanley International Index. The daily traded values and prices of ROMGAZ (SNG), Banca Transilvania (TLV), BRD-Group Societe Generale BRD, OMV Petrom (SNP) and Societatea Electrica (EL) were collected from the Bucharest Stock Exchange website. Then the values were turned into US Dollars because all indicators are calculated in US Dollars, as proposed by MSCI.

First, we calculated the ATVR 12M and ATVR 3M for each company using the MSCI methodology.

According to MSCI, Free Float (FF) SNP 20%. (BVB, 2017)

FF Market Cap is calculated using the last price in that specific month * number of securities issued * 0.2 (FF)

(Median Traded Value, MTV)

We calculated the monthly median traded value = Median Traded Value (USD)* number of traded days within that month

MTVR = Monthly Median Traded Value / FF Market Cap

ATVR 12M = Average (MTVR $i=1,12$) *12 (Jan2018 – Dec2018)

ATVR 3M = Average (MTVR $i=1,3$) *12 (MSCI,2018).

Results

In 2018 a study was made analyzing four companies and the paper addressed the chances of the Romanian Capital Market to be upgraded to Emerging Market status. The study revealed that one of the hardest challenges faced by the Romanian companies that were listed on the Bucharest Stock Exchange was to increase the liquidity. With some changes and improvements made on the capital market, it is still believed that Romania has the potential to upgrade to the Emerging Market status if at least three companies fulfill MSCI requirements; the minimum 15% ATRV-Annualized Traded Value, Ratio, Free Float market value of at least 763 million USD and 1,375 bn. In 2019 a technical analysis has been made for five companies with the potential of being included on the MSCI Emerging Market Index, Romgaz, OMV-Petrom, Banca Transilvania, BRD Group Societe Generale and Electrica. As far as the Mcap levels are concerned, almost all analyzed companies met the condition of minimum USD 1,375 bn, except for Electrica whose Mcap levels are USD 871 mn. Compared to 2017, in December 2018, BRD Group Societe Generale Banca Transilvania (TLV), Romgaz(SNG) and OMV Petrom (SNP) reported lower Mcap Levels. In terms of Market capitalization, in February 2019, all companies except for Banca Transilvania seem to be catching up with levels. Banca Transilvania reports Mcap USD 2,194 million in 2019 compared to December 2018 (USD 2,379 million).

Analyzing the technical tables, it seems that in December 2018 BRD faces challenges in fulfilling the Free Float Market Capitalization, reporting it USD 588 million, compared to USD 724,3 million in December 2017 (which also was not a step to fulfilling the MSCI requirement following the standard change that increased the minimum value imposed by MSCI). Although in February 2019, BRD and EL are gaining confidence, they still do not fulfill the MSCI requirement of a minimum of 763 million USD.

For 2019, BRD needs to increase its FF Mcap by 28% in order to reach the minimum imposed by MSCI.

Although in 2018 Electrica has low levels in FF Mcap, Mcap and Annual Traded Value Ratio-ATVR, in 2019 Electrica seems to a slightly more increased from 13% in 2018 to 14% in the first part 2019.

In 2018 although FF Mcap and Mcap levels decreased for all companies, the ATVR percentages increased significantly, except for Electrica (EL), ATVR (13%). In order to fulfill MSCI requirements, at least three companies need to reach ATVR (12M) 15%, Free Float Mcap 763 million USD and Market capitalization-1,375 million USD. In 2019, in order for EL to reach a minimum ATVR 15%, it needs a 13% increase in turnover.

In terms of Market capitalization, Electrica report levels are below 1,375 million USD. In 2019 Electrica needed to increase its Market Capitalization by 58% in order to reach the minimum required of USD 1,375 mio, compared to the end of 2018 66%, when the requirement to increase was even bigger, 66%.

In terms of Free Float Market Capitalization, in 2019, Electrica needed to increase its Free Float Market Capitalization by 95% in order to reach the minimum required, 763 mio.

In December 2018 and the beginning of 2019, OMV-Petrom, the company that was the study case in the previous study paper, fulfilled all MSCI requirements including the ATVR (12M), reporting 17% in 2018 compared to 12.62% in 2017. Also, OMV Petrom increased at the beginning of 2019, reporting ATVR (12M) 18%. What is more noticeable however is the decrease in trends of Annualized Traded Value Ratio levels

in the case of BRD (31%), TLV (23%) for February 2019 compared to December 2018 (Fleanta & Anghel, 2018).

OMV-Petrom (SNP)

OMV-Petrom registered on the Stock Exchange under the initials of SNP and it represents the most important industrial as well as industrial group for gas and oil extraction in Southeastern Europe, maintaining itself as an industry leader in Romania.

The Romanian State through the Ministry of Energy holds 20.64% of the shares of OMV Petrom. According to the OMV Petrom report, the companies listed on the Vienna Stock Exchange hold 51.01% of the group. The Property Fund holds 9.99% and the remaining 18.35% is the free float other shareholders trading in the shares on the Bucharest Stock Exchange and Deposit Certificates, Global Receiver Receipt (GDR) on the London Stock Exchange, London Stock Exchanges. From the perspective of its potential to reach the MSCI watch list the company's financial performance comes not only from a well-thought strategy of operational optimization the sectors but also from 51.01% by the Austrian parent (OMV Petrom Annual Report 2018). This favored an optimized performance leading to a rise in the company's stock prices. Following a technical analysis in 2017, from the total volume of the entire market in that year, the annual turnover of USD 1,017,047,087 billion was required to reach RON 4,017,347,887. Lately, external events have largely influenced the evolution of the company. Romania's economic growth slowed down in 2018, to 4.1% from 7.0% in 2017 the pace of economic expansion remains one of the highest in the EU. This means that domestic consumption was the main driver for economic growth, a growth that was much supported by the public sector through the increase of minimum wage. SNP is now facing a challenging domestic regulatory and fiscal environment that has produced effects starting from Q4/18 through the Emergency Government Ordinance no. 114, and through the supplemental taxation mentioned in the Offshore Law. Also, Cash Outflow for investments at RON 4.3 bn, 74% higher compared to the previous year. There can be observed a price fluctuation following Ordinance no. 114. SNP witnessed an abrupt decrease in share price in December (OMV-Petrom Annual report 2018).

Despite the new legislation which presses on the company's budget, OMV –Petrom has reached the MSCI requirement for Annualized Value Traded Ratio, ATVR 12M, 18%. Despite its progress in reaching MSCI's requirements, compared to 2017, OMV Petrom reports lower Mcap and FF Mcap; USD 4,837mil in 2017 versus USD 4,176 mil in 2018. In 2017, the Free Float Market Capitalization the company reported USD 967 mil vs USD 853 mil in 2018. If in 2017 the worry was that lower prices would put in jeopardy the chances to fulfill MSCI requirements, in 2018 OMV Petrom fulfills all requirements. Also despite the decrease in the Mcap levels, out of all analyzed companies, SNP mains itself as the company with the highest Mcap, USD 4,176 mill.

Banca Transilvania (TLV)

With a streamlined strategy, in 2018, TLV has increased the number of clients per business by 17% compared to the previous year. SME customers grew by 24.4% as 2018 reports 17,700 customers. Retail customers increased from 2,183,335 in 2017 to 2,560,651 in 2018, or 17.3%. At the end of 2018, the evolution of the client base of the company grew consistently from 2,428,079 in 2017 to 2,844,617 in 2018, reporting a 17.2% overall growth. 2018 reports a portfolio of 3.7 million cards, which shows a greater market coverage of 21% bank users; which in turn led to an increase of 14% of those using internet banking. In 2018, Transilvania Bank's total assets amounted to RON 74.119 mil, compared to RON 59.302 mil. The BT Group's consolidated net profit was RON 1,260.68 million, of which RON 1,219.39 million for the bank, a result that has favored the integration of Bancpost.

Compared to the other companies analyzed, TLV, is the only entity that does not have a major shareholder, which maintains the Free Float trading space at 70%. Taking into account that Banca Transilvania does not have a main shareholder, it is worth noting the higher capitalization of the Free Float market, which reaches USD 1,665 mil, which is the highest in comparison to the other analyzed companies. Also worth noting that even though the free-float market capitalization decrease in 2018 and the first part of 2019, FF Mcap for TLV remains the highest among the other companies. (BVB, Wood, 2018).

Electrica

Electrica is a State-owned company specialized in the supply and distribution of electric power. According to the Central depository, at the end of December in 2018, Electrica's main shareholders are the Romanian state through the Ministry of Energy and other shareholders. Electrica has long-term potential to achieve MSCI criteria. Although electric power distribution was a little lower in 2018 TWH 17.7 in 2018 compared to 2017 TWH 17.8, the number of users has grown from 3.70 mils in 2017 users to 3.78 users at the end of 2018. So have the EBIT levels improved from RON 197 mil in 2017 to RON 261 mil 2018. It is very interesting that although net profit and EBIT levels are slowly but visibly growing, the number of employees has significantly decreased, from 8.792 employees to 7.995 employees in 2018. In 2016 capital expenditures were worth RON 596 mil compared to RON 742 mil in RON 2017 and RON 913 mil in 2018. Also, the profit per share is the highest in 2016, RON 1.05 compared to RON 0.98 compared to 2017 RON 0.38. The company's net profit was highly determined by the capital expenditure whose growth was further generated by the new investments in the distribution network. Energy policy favored the development of other private electric power providers, allowing users to choose their main provider. Thus, in 2018, Electrica Furnizare's supply quotes on the private market covered (9.36%) and were overtaken by ENEL company (19.15%). On the regulated market, however, Electrica's supply quotes covered 45% of the whole regulated market, followed by ENEL (27,06%) and EON Energie (13,92%). Yet Electrica remains the main electric energy supplier in Romania covering most territories, (40.7% of Romanian surface) and most users (Annual Report 2018).

In terms of MSCI levels, Electrica is the last company on the list of candidate companies that are almost ready to upgrade on the MSCI watch list. Electrica was listed on the Bucharest Stock Exchange in 2014, 5 years ago. Although its market capitalization (Mcap) is below the minimum required as well as the free-float market capitalization (FF Mcap), Electrica SA reports an annual traded value Ration (ATRV12M) of 13.28% (BVB&Thompson Reuters, 2018).

As a recommendation, Electrica has to increase its liquidity by stimulating demand. This means that more Investor Relations activities might increase, chances to attract investors. By Improving this, Electrica might increase liquidity. This means greater volume and higher traded values that lead to higher ATRV levels.

Discussion

Although companies present a great potential to enter the MSCI watch list, some changes in the Free Float Mcap and Mcap of the MSCI candidates, reflect an economic evolution worth analyzing qualitatively. Compared to 2017 where only three companies met MSCI requirements at the end of 2018, four listed companies fulfilled the minimum requirements imposed by the global index provider. On June 20, 2018, MSCI published its latest Global Market Accessibility Review, revealing that Romania continued its efforts to bring improvements in liquidity and active participation to the stock market by lowering trading fees and supporting market makers in boosting market activity. The end of June 2018, brought Romania's accessibility criteria upgrade on three observations: Market Regulations: All regulations were displayed in accordance to Corporate Governance Code; Information Flow: Launch of Issuers Reporting Information System in June 2016 has significantly improved the efficiency in building the bridge between investors and companies through the dissemination of corporate news and regulatory reports. In addition, the periodic release of "Whitebook on Communication of Listed Companies" also lead to the improvement of transparency and compliance with the Corporate Governance Code;

The presence of market makers helped boost market activity in January 2018, leading to the reduction of trading fees and encouragement to more active participation in the market. Although Romanian companies show great potential to be included in the MSCI watch list, the Romanian economy is faced with various challenges that could affect the potential. Standard & Poor's confirmed the overall picture of Romania's sovereign ratings at the stable, according to S&P release. The country's ratings were at BBB-/A-3 on Mar 4, 2019. S&P was supposed to downgrade the outlook to negative due to the much the criticized emergency bill that introduced new fiscal and budgetary policies at end of 2018, (OUG 114) but the effects on the economy would have been worse. Following the adjustments in the ratings and the outlook, and discussions with the interested parties, S&P seemed confident that the government would revise the necessary parts

of the OUG 114. The agency expressed its belief that those changes would diminish the negative effects on monetary policy and help recover the confidence of the investors and in the economy.

However, the ratings could be lowered in the next couple of years should the expected policy adjustment would not be enough to avoid the forecasted negative effects. A downgrade could have a catastrophic impact, given that Romania could lose its investment-grade rating, which would lead to considerably higher borrowing costs and fewer capital flows coming ahead. At the same time, the ratings could recover in the event of a better adjustment of fiscal policies, leading to the falling of government debt and the strengthening of the governance framework. At the end of 2018, without any public consultation, OUG 114 was firmly approved. The ordinance introduces a tax on banks' financial assets, a 2% sales tax in telecommunication and energy; it also caps prices on domestic gas for three years and it is meant to regulate electricity prices also by 2022. Moreover, the bill introduces several major changes for private pension funds, which will significantly affect their profitability as well as activity. Numerous national and international investment institutions, economists and the private sector have largely criticized the OUG 114 warning about its negative effects on the economy.

Authorities discussed with major players in all affected fields and made several firm changes to the bill especially with regard to the bank tax. Overall, S&P evaluated that Romania's ratings remained supported by its moderate external private and public debt and its strong growth potential, although institutional effectiveness is yet fragile. S&P estimates widening twin deficits in the medium term, but the solid fiscal and external stock positions could help in the case of external shocks. S&P estimates further economic growth slowdown in the following years, mainly due to weaker external investor demand and visible lower private investment. The economic and fiscal environment would cause a lower performance of companies, deepening investor distrust in companies and would finally put jeopardy the companies' potential to be included in the MSCI Watch list. Although more companies are to closer meet all MSCI requirements, still there is a long way to reach the universe of emerging markets, given various challenges in the fiscal, political and economic environment. Through various measures to attract companies to be listed on the Bucharest Stock Exchange and a significant increase in retail investors, the Bucharest Stock Exchange has already communicated the strategy that leads to a consolidated capital market, a greater company resilience and better attraction of retail and institutional investors.

In 2018, FTSE Russell maintained Romania on the watch list of the countries that have the potential to reclassify from Frontier Market to Secondary Emerging Market. Liquidity is the most important criterion leading to the Romanian Capital Market's upgrading to the Secondary Emerging Market status. In 2018, this was upgraded from "Not Met" to Restricted, which shows some improvements in the broad market liquidity. In addition, the "off-exchange transactions permitted" upgraded from "Not Met" to "Restricted". Following some improvements, Romania's evolution and upgrade to the Secondary Emerging Market status will be reviewed in September 2019 (BVB, 2018). After Argentina's reclassification to Secondary Emerging Market, compared to other regional peers, such as Croatia, Serbia, Croatia, and Slovenia, Woods Report estimates some changes in the MSCI Frontier Markets Index. Following Argentina's upgrade, Romania's Frontier Market has the highest weight, 3.69%, compared to Slovenia 1.64%, Croatia 1.60% and Serbia 0.17%. (Wood, 2018). In 2019, estimated passive inflows into MSCI 100 Index are the highest for the Romanian company (TLV-USD 1.9 mil; compared to SNP-USD 1.0 Mil, SNG-0.9 mil, BRD-USD 0.7 mil and EL-USD 0.4 mil) (Woods, 2018). Besides the unpredictable overview of the economic and fiscal environment, Bucharest Stock Exchange increased the demand and improved offer as, more institutional and retail investors were attracted in 2018. According to the Investor Relations of the Bucharest Exchange, listed companies paid around 7% dividend yield in 2018. Also, the value of private companies in the Bucharest Stock Exchange reached EUR 40 mn. The value of bonds issuance was worth EUR 1.7 bn in 2018. Average daily turnover in shares for Q1 2019, reached EUR 93 mn/per day only in shares. (Investor relations BVB, 2019). These market improvements have largely contributed to the attraction of investors, listing more companies on the stock market, favoring a decrease in trading prices and volume improvement.

In terms of sector benchmarking, in a PwC 2017 analysis of valuation multiples, there was shown a relationship between EV/ multiples and profitability that may cause confusion when the analysis is made to trace companies' evolution over a period of 5 or 11 years, and monitor economic cycles. The 11-year Price Waters Coopers (PWC, 2017) survey showed that the financial sector was affected by the recession. It was also confirmed that the most volatile sectors in economic cycles were the financial sector, and there can be seen a discrepancy between multiple value and profitability. In 2017 this study revealed that electricity, oil, and gas sector reported the highest EV multiple, however, profitability was among the lowest

compared to the banking sector which although reported a lower EV multiple, reported higher profitability. In 2017, this is also a sign of stability and lower reaction to economic shocks, for the energy sector with a PER of 11.7. The banking sector, however, was highly reactive to economic shocks and PER was 9.3 (PwC,2017).

Following a technical analysis using the MSCI methodology, it was found that in 2018 four companies met the ATVR target of at least 15%, such as Romgaz, Banca Transilvania, BRD Group Societe Generale. OMV-Petrom. As for recommendations for the most important listed companies, it is needed to increase all investor relations' activities together with the Bucharest Stock Exchange, such as International Roadshows, financial education programs in Romania, training for media and companies, improving transparency and communication with investors implementing stock option for employees and development of the Corporate Governance.

Conclusions

To conclude this paper is an analysis of the evolution of the Romanian candidate companies, based on the Morgan Stanley International Index (MSCI) criteria. The analysis offered a view on the evolution of Annual Traded Value Ratio (ATVR 12M) levels, Market Capitalization and Free Float Market Capitalization, (Mcap FF), of the Banca Transilvania, OMV Petrom, BRD Group Societe Generale, Romgaz, companies that in 2017 were the top Romanian candidates to meet MSCI criteria.

The paper took into consideration data from January to December 2018 and Q1 2019. The paper also looked at Electrica's evolution in 2018 and the first part of 2019. Almost all companies, except for Electrica and BRD fully met MSCI requirements, minimum 15% ATVR, USD 763 Mio FFMcap, and 1,375 Mcap. In order for Electrica to fulfill the requirements, the company needed to increase FF Mcap by 95% in the first part of 2019 and also increase Market Capitalization by 58%. In 2019 Electrica needed a 13% increase in turnover to meet minimum ATVR to reach Minimum imposed by MSCI. BRD is another company that although has the potential to reach MSCI requirements, fails to fulfill the FF Mcap, as it needs to increase its FF Mcap by around 28%.

In 2018 the overall results of the analyzed companies reveal that most companies have Mcap and FFMcap levels in a slight decrease, compared to the previous year even though in the first part of 2019 companies improved their indicators. Compared to 2017, OMV Petrom reached MSCI Annual Traded Value Ratio requirement. Looking at the top MSCI candidate's evolution over 1 year, there could be observed that despite the less predictable economic fiscal environment, companies improved their MSCI indicators.

That means volatility could improve trading values ATVR. Moreover, compared to last year, liquidity is the most important criterion that influences the Romanian capital market's upgrade on the Secondary Emerging Market universe. The criterion was upgraded from "Not Met" to "Restricted" by FTSE. An unpredictable economic environment would jeopardize the chances of Romania to be included in the MSCI watch list due to the decrease in their market value, especially FF market value.

Yet Romanian capital market remains an attractive market to invest in, given Bucharest Stock Exchange measures to attract investors, by increasing the listing of companies on the stock exchange, facilitating the access on the stock exchange for retail and institutional investors and a very good return for investment offered for investors by the local capital market.

Market Cap and ATRV for 31 December 2017

MSCI Index Romania

Stock	FF	Mcap(USDm)	FF Mcap(USDm)	ATRV 12M	ATRV 3M
Banca Transilvania	70%	3,091,973,144	2,164,381,200	18.94%	17.48%
Romgaz	30%	3,192,916,246	957,874,873	16.18%	15.38%
Societe Generale	30%	2,414,484,999	724,345,499	23.06%	17.87%
OMV-Petrom	20%	4,837,406,852	967,481,370	12.62%	19.35%

Source: BVB, Dissertation paper - Fleanta, S., Anghel, L. (2018)

Market Cap and ATRV FOR 28 February 2019

MSCI Index Romania

	Market Cap (USDm)	FF	FF Market Cap (USDm)	3M ATRV	12M ATRV
Banca Transilvania	2,194	70%	1,536	27%	23%
Romgaz	2,800	30%	840	22%	18%
Electrica	871	45%	392	21%	14%
BRD	1,988	30%	596	26%	31%
OMV Petrom	4,631	20%	926	24%	18%

Source: BVB, Thomson Reuters, MSCI

MSCI Requirements for Electrica and BRD for Q1 2019

2019	Mcap	FF Mcap	ATRV 12M
EL	58%	95%	13%
BRD	-	28%	-

Source: BVB, Thomson Reuters, MSCI

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