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NEW FINANCIAL INSTRUMENTS AND THE POSSIBILITIES OF TRADING ON THE WARSAW STOCK EXCHANGE – DEVELOPMENT STRATEGY OF THE WSE IN THE FACE OF EUROPEAN CAPITAL MARKET CONSOLIDATION

The Warsaw Stock Exchange was founded on 16th April 1991 as a new market institution in the process of capital market transformation. Creation of new economic order in Poland allocated a double role to the WSE: on the one hand its development forced and accelerated the process of forming the entire capital market infrastructure; on the other – the WSE itself had to meet growing expectations of market participants.

In this article author presents the development strategy and possibilities of trading in new financial instruments on the Warsaw Stock Exchange according to own interests in use of some kind of instruments for analysis financial risk.

The history of the WSE so far has allowed for collecting the necessary experience, broadening the know-how and fostering the professionalism. However, though the leading position of the WSE in Central and Eastern Europe gives rise to certain satisfaction, it cannot be taken for granted in the future, as the WSE locates itself among one of the minor local stock exchanges in comparison with the world biggest stock exchanges.

Judging from trading on the WSE in 2002, one should observe that the last year was a very difficult time for the whole capital market in Poland. The spot market turnover fell by 20% for the second consecutive year. Recession led to a lower number of listed companies and brokerage houses. Concentration of trading with shares of WIG20 companies grew and their share in the primary market turnover increased from 86% last year to 91% in 2002. Besides, the stock market did not attract new investors, which was a direct effect of introducing the so called “Belka’s tax”. What seems worth noticing is the change in the structure of investors. In 2002 in reference to 2001, the share of national institutional investors increased from 29% to 39% at the expense of diminishing the number of individual investors from 37% to 27%, while the percentage of foreign investors was preserved.

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Comparison of spot market turnover in 2001 and 2002 on the WSE is presented in Tables 1 and 2.

Table 1. The turnover structure in 2001–2002

Financial instruments	Session transactions 2002		Session transactions 2001		Stocks transactions		Others*		Total	
	(mln PLN)	% share	(mln PLN)	% share	2002	2001	2002	2001	2002	2001
Shares	47 729	92.17	60 548	91.80	15 933	19 895	3 826	4 052	67 488	84 495
Rights to shares	7	0.01	154	0.20	–	2	–	–	7	156
Rights issue	24	0.05	109	0.20	2	1 345	–	–	26	1455
Bonds	3 986	7.70	5 093	7.70	145	40	–	18	4 131	5 151
Investment certificates	27	0.05	4	0.01	–	–	–	–	27	4
Warrants	8	0.02	20	0.03	–	–	–	–	8	20
Total spot market	51 781	100	65 929	100	16 080	21 282	3 826	4 070	71 686	91 281

S o u r c e: www.gpw.com.pl The stock exchange data.

Table 2. The turnover change in 2002 in comparison to 2001 (in %)

Financial instruments	Session transactions	Stocks transactions	Others*	Total
Shares	–21	–20	–6	–20
Rights to shares	–96	–	–	–96
Rights issue	–78	–100	–	–98
Bonds	–22	261	–	–20
Investment certificates	574	–	–	574
Warrants	–58	–	–	–58
Total spot market	–21	–24	–6	–21

* It encompasses public sales offer and substantial packets of shares.

S o u r c e: As same as Tab. 1.

In the market for secondary stock exchange instruments the year 2002 was also deprived of spectacular successes. Due to a close bond between the futures market and the underlying instruments market, the former recorded a fall in its turnover as well. The entire volume of trading for all the contracts was 3.420.909 which indicates a 10% fall in reference to the record-breaking year 2001 with 3.777.197 contracts. The greatest share in the volume belonged to

futures contracts for WIG20 (3.057.237 contracts) while the remaining index contracts reached much smaller numbers. The volume of trading for MIDWIG contracts, introduced in February 2002, was only 7672 and unfortunately the TechWig futures contracts also lost their popularity – in 2002 there were only 12.927 traded contracts in comparison with 33.444 contracts in 2001.

A detailed comparison of trading in futures market on the WSE in 2001–2002 is presented in Tables 3 and 4.

Table 3. The structure of trading in futures market in 2001–2002

Financial instruments	Turnover 2002		Volume 2002		Turnover 2001		Volume 2001	
	(mln PLN)	% share	(number)	% share	(mln PLN)	% share	(number)	% share
Index contracts	75 521	97.58	3 077 836	89.97	96 568	97.90	3 679 972	97.40
Shares contracts	1 332	1.72	92 097	2.69	923	0.90	60 557	1.60
Currency contracts	482	0.62	5 957	0.17	1 155	1.20	14 325	0.40
Index units	62	0.08	245 019	7.16	6	0.01	22 343	0.60
Total futures market	77 396	100	3 420 909	100	98 651	100	3 777 197	100

Source: As same as Tab. 1.

Table 4. The change in trading in 2002 in reference to the year 2001 (in %)

Financial instruments	Turnover	Volume
Index contracts	-22	-16
Shares contracts	44	52
Currency contracts	-58	-58
Index units	928	997
Total futures market	-22	-9

Source: As same as Tab. 1.

Only the volume of trading with futures contracts for single companies increased from 60.000 in 2001 to 90.000 contracts in 2002. The value of the volume neared to 5% of the value of the secondary instruments volume. An important event during the year was the change in contract specification, which adjusted the expiration cycle to the one used for futures contracts for WIG20 and decreased the daily quotation from 0.10 to 0.05 PLN. On 18th March 2002 futures contracts for the shares of Bank Przemysłowo-Handlowy PBK S.A. were quoted for the first time and on 24th March 2003 they were followed by such companies as Bank Millennium PBK S.A., Bank Zachodni WBK S.A., Computerland S.A., Budimex S.A., Orbis S.A., Stomil-Olsztyn S.A.,

Frantschach Świecie S.A., Kredyt Bank S.A., Firma Oponiarska Dębica S.A., Grupa Kęty S.A. Further development of share contracts should be conditioned by their facilitated possibility of short position and arbitrage. Besides, on 9th November 2002 the contracts were quoted on two stock exchanges in the USA: OneChicago and NasdaqLiffe. Currently, the volume of trading on each of them arises to 5,000 contracts daily, which promises a gradual growth in their popularity on the stock exchange.

The market of currency futures contracts still remains marginal on the WSE. It is rather impossible to expect any changes in that respect, as tax exemption for profits gained from that kind of transactions by natural persons has not been introduced, although it was postulated a long time ago.

In respect to the tax question, the most important issue for the market is to prolong tax exemption for profits made on the stock exchange by natural persons. The consequences of introducing a taxation would be deplorable for further development of the capital market, as the circles connected to that market agree.

Our approaching accession to the EU may prompt a greater interest in Polish capital market. It gives a chance to overcome the recession and stop the fall in the number of operations performed by brokerage houses on the Warsaw Stock Exchange. A possible growth of their number can be connected with the project of mutual membership with Euronext and with enabling foreign members to trade directly on the WSE. It may be an opportunity for the WSE to become more attractive and to increase the turnover both on the shares market and on the secondary instruments market.

The ongoing integration of the European market, as well as the fact that in 2004 Poland is going to become an integral part of that market, initiated the creation of a development strategy by the WSE, which until 2005 is to lead the WSE to an adequate position within the European alliances and to help preserve its leading position in Central and Eastern Europe.

“The Development Strategy of the Warsaw Stock Exchange until 2005 is based on a report prepared by The Boston Consulting Group.

A fundamental conclusion drawn from the capital market analysis point to the danger of marginalisation of the WSE and Polish capital market. The conclusion has been drawn from the analysis of trends and tendencies observed in the macro scale and from the analysis of selected problems, which are encountered by small and middle-size stock exchanges in conditions of ongoing globalisation and technological progress all over the world. The development strategy lists long-termed actions undertaken by the WSE in order to benefit from its current position, as well as the trends and possibilities of the market. It also contains a number of initiatives taken in order to reduce the possible market threats and to minimise the already identified risks.

A significant tendency currently observed on the global capital markets refers to agreements, mergers and alliances. These are supported by both technological and economic factors. Processes occurring on the European markets contribute to the need of creating a common infrastructure of trading and unifying various stock exchange systems. It seems a task of fundamental importance to work out a concept of the WSE role and place in the highly competitive environment of integrating Europe.

Among the national phenomena, processes and tendencies, which seem to be the most dangerous and challenging for the capital market and the WSE, one can mention low competitiveness of Polish companies, diminishing flow of new companies to the WSE, risk of transferring trading with Polish shares to foreign markets, risk of falling interest in Polish companies among investors due to a better competitive value of other kinds of securities (e.g. debentures), a weak system of encouragement to invest into securities, low effectiveness of the system of sanctions for crimes committed on the capital market. To confront these threats in the face of growing competitiveness of the external environment is an elementary strategic goal of the Warsaw Stock Exchange" (compare www.gpw.com.pl O Giełdzie – Strategia Giełdy).

The WSE development strategy comprises the following inextricably entwined elements:

- mission of the WSE,
- long-term strategic goals,
- strategic tasks.

1. Mission of the WSE

- Ensuring a transparent, efficient and flexible mechanism of trading, which should concentrate trading with Polish securities.
- Providing a high quality services for the organisation of stock exchange trading, stock exchange products and distribution of information in order to meet the expectations of investors and issuers.

2. Long-term strategic goals

- Maintaining the position of the largest stock exchange in Central and Eastern Europe
- Gaining an adequate position within the structure of integrating capital markets in Europe.
- Supporting the development of efficient capital market infrastructure in Poland
- Maintaining favourable development of the company

3. Strategic tasks of the WSE

Strategic tasks of the WSE encompass 16 strategic initiatives and 3 complex tasks such as the strategic alliance, privatisation and restructuring the WSE, which underlie the principles of the strategy.

3.1. Strategic initiatives of the WSE

Strategic initiatives have been grouped into three categories, which include developing supply, increasing demand and strengthening the infrastructure.

DEVELOPING SUPPLY

- Promoting and active marketing of public offers (primary and secondary).
- Simplifying the requirements and the process of issue.
- Ensuring a greater share of stocks in unlisted trading.
- Attracting foreign companies to the WSE.

INCREASING DEMAND

- Analysing the possibilities of greater access for individual investors to the stock exchange through bank services.
- Widening the circle of subjects trading on the WSE (mutual membership and associate membership for international entities)
- Promoting share trade by means of the Internet
- Active participation in creating the law which should support the development of capital market in Poland.
- Reviewing the structure of fees on the WSE and co-operating with the National Depository for Securities on the fee policy.
- Reviewing the range of products on the WSE and improving the process of product development.

STRENGTHENING THE INFRASTRUCTURE

- Executing the procedures of transparency and coherence of the capital market including the implementation of initiatives connected with the "Corporate Governance".
- Tighter co-operation with the National Depository for Securities
- Integrating the CeTO within the capital group of the WSE
- A complete utilisation of the WARSET system.
- A better use of information distribution as a source of income.
- Examining the principles of providing "back-office" services for brokerage houses.

3.2. Fundamentals of the strategy realisation

1. International alliance.
2. Privatisation of the WSE.
3. Restructuring of the WSE.

Ad 1. It is a task of fundamental meaning for the WSE to occupy an adequate position within the structure of international alliances and agreements. A successful implementation of the WARSET system, a technological solution compatible with the one used by Euronext, can possibly approximate the WSE to that co-operating partner. One should however remember that currently on various stock exchanges the influence of technological solutions on business decisions is weakening. It results from the growing meaning and common use of various techniques, which enable mutual communication between different electronic dealing systems. A decisive factor for the choice of strategic partner of the WSE will be the extent to which the alliance with an international partner will strengthen Polish capital market looking forward to the accession to the EU.

Ad 2. Privatisation of the WSE should support the development of national capital market, as well as fulfil the requirements of future competition on the EU market and facilitate the existence of the WSE within the European structure. Defining detailed principles and the schedule of privatisation remains the competence of the major shareholder, i.e. the Treasury.

Ad 3. A strategic goal is to depart from the "non profit" model and to reform the organisational structure of the WSE in the direction of a model oriented for marketing and sales, in accordance with the tendencies prevailing on the European stock exchanges.

A modified structure should be able to react efficiently and flexibly to the needs of capital market and support the realisation of the WSE strategies.

The schedule of realisation of the WSE strategy assumes that all the strategic tasks, i.e. strategic initiatives, alliance with an international strategic partner, restructuring and privatisation, will be accomplished until 2004. The realisation of several key initiatives, each of which constitutes a separate project, is arranged in time for the entire period of strategy implementation according to the priorities determined by the importance of the task and according to the extent to which it is conditioned by the actions of the WSE itself or by the involvement of other entities.

The realisation of the WSE strategy shall lead to:

- 1) Adjusting the services within the organisation of trading, product offer and the system of information distribution to the growing demands and needs of the capital market participants.

2) Strengthening the position of the Warsaw Stock Exchange in the region of Central and Eastern Europe and preserving its leading role in the transformation of the market.

3) Providing the WSE with an adequate location within the pan-European stock exchange structure.

4) Defining the mechanism for representing the interest of the capital market in the future. (compare www.gpw.com.pl O giełdzie – Strategia Giełdy).

Summing up the strategic goals adopted by the WSE and concentrating on fostering the international co-operation, as well as on the product offer and new possibilities for trading, one should admit that the WSE is consistently implementing its development strategy. Already in September 1998 the WSE became a member of International Organisation of Securities Commissions. In June 1999 it became an associate member of the FESE and in July an agreement on mutual co-operation and exchange of information was signed with the stock exchanges in London and Paris. Since August 2001, the WSE has been co-operating with the National Lithuanian Stock Exchange and in February 2002 it signed an agreement on mutual membership with Euronext.

Every year the WSE broadens the range of instruments offered to investors. In 2002 futures contracts for MIDWIG were quoted for the first time. Investors were also looking forward to the planned introduction of instruments for foreign indexes, mainly the index certificates issued by HVB (Bayerische Hypo- und Vereinsbank AG) for Nasdaq100 and DJ Euro-Stoxx50. Unfortunately a delay in introducing these instruments results from an independent decision of the issuer. Undoubtedly, the introduction of these instruments to the market would evoke investors' interest despite the prevailing recession.

With respect to contracts for foreign indexes, it seems impossible for the WSE to receive a licence for the most required indexes such as DAX or DJ EuroStoXX50. In the immediate future contracts for major foreign indexes will be available only directly on foreign stock exchanges. Significant values of these contracts pose a problem for Polish investors: even the values of contracts with a reduced multiplier, which were introduced recently in order to attract retail investors, are much higher than the values of WIG20 contracts.

In 2003 the Warsaw Stock Exchange plans to list index options for WIG20, as well as shares options for the best floating companies. It seems that during the first year one can expect an option volume approximate to the volume of futures share contracts. However, a pessimistic scenario, similar to the one on Hungarian or Portuguese stock exchange, where options had not been accepted, cannot be entirely excluded.

Apart from facilitated abroad investment, the new exchange law offers possibilities of quoting foreign currency instruments on the WSE. Within a year such products might appear on the stock exchange, most probably these will be

products issued in the European Union, debentures issued in foreign currency and units of investment funds.

Summing up, the new instruments offered to investors on the WSE allow to broaden the range of methods of analysis risk on financial market.

The attractiveness of Polish capital market and the Warsaw Stock Exchange for all investors shall depend primarily on the attractiveness of quoted companies, high quality of offered instruments and their competitiveness on the European market.

References

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NOWE INSTRUMENTY FINANSOWE ORAZ MOŻLIWOŚCI OBROTU NA WARSZAWSKIEJ GIEŁDZIE PAPIERÓW WARTOŚCIOWYCH – STRATEGIA ROZWOJU GIEŁDY W ŚWIETLE KONSOLIDACJI EUROPEJSKIEGO RYNKU KAPITAŁOWEGO

Giełda Papierów Wartościowych w Warszawie powstała – 16.04.1991 r. – jako nowa instytucja rynkowa tworzonego w warunkach transformacji systemowej rynku kapitałowego. Proces tworzenia nowego ładu ekonomicznego w Polsce wyznaczył Giełdzie podwójną rolę – z jednej strony jej rozwój wymuszał i przyspieszał kształtowanie się całej infrastruktury rynku kapitałowego, z drugiej zaś sama Giełda musiała sprostać rosnącym potrzebom uczestników tego rynku.

Dotychczasowy okres działalności Giełdy pozwolił na zebranie doświadczeń, pogłębienie wiedzy i utrwalenie profesjonalizmu. Jednak obecna wiodąca pozycja GPW w Europie Środkowo-Wschodniej, rodzi satysfakcję, ale nie może być traktowana jako przesądzona na zawsze bowiem na tle wielkich giełd światowych warszawska GPW usytuowana jest wśród mniejszych giełd lokalnych.

Atrakcyjność polskiego rynku kapitałowego i warszawskiej Giełdy Papierów Wartościowych dla wszystkich grup inwestorów będzie zależała przede wszystkim od atrakcyjności notowanych spółek, wysokiej jakości oferowanych instrumentów oraz ich konkurencyjności w wymiarze europejskim.