

POLAND

SECURITIES

SUMMARY

Poland has made substantial progress in rebuilding its capital markets after decades of communist rule. Already it has a rapidly growing and well-supervised equities market – the Warsaw Stock Exchange (WSE) and the over-the-counter market (CETO) – and a vibrant and fairly liquid Treasury bills market. As of late 1998, the total market capitalization of the equities market was around US\$13 billion, which was nearly 9 percent of Gross Domestic Product (GDP). Treasury bonds are traded on the WSE, but they are not nearly as liquid as Treasury bills. Corporate bonds, commercial paper, and most futures and derivatives for now are not publicly-traded. Institutional investors, principally banks and to a lesser extent insurance companies, dominate the capital market. Mutual funds and individual investors play a small but growing role.

The Polish Securities and Exchange Commission (SEC) and the National Bank of Poland (NBP) supervise the public trading and private trading among banks and brokerage houses of securities. Both have earned good marks from the European Bank for Reconstruction and Development (EBRD) and other analysts for their supervision of the capital markets.

U.S. financial institutions have established a significant presence in the Polish capital markets. Four of the 37 brokerage houses are U.S.-owned or controlled, including one of the leaders owned by Citibank. The Pioneer Group through its four local mutual funds has garnered an 80 percent share of the mutual fund market in Poland. A number of U.S. investment banks in Poland provide advisory, underwriting, and fund management services. Poland extends national treatment to U.S. firms offering financial services in connection with issuance and trading of securities. This treatment conforms with Poland's commitments made to the Organization for Economic Cooperation and Development (OECD) and with its financial services offer made in the WTO.

DESCRIPTION OF THE MARKET

Stock and Bond Markets

The Polish capital markets are small, though developing rapidly. The WSE, revived after fifty years in dormancy, plays the leading role in the trading of equities and Treasury bonds. Open-ended mutual funds active in bonds and equities have operated in Poland for several years, and CETO became active in 1997. Treasury bills, commercial paper, and corporate bonds are privately placed and traded. An active secondary market exists for Treasury bills, which have been the most liquid of all debt or equity investments. New products such as derivatives (e.g., indexed products, swaps), futures, and options have begun to appear in Poland.

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The WSE has developed swiftly since its reestablishment in 1991. It practically doubled total market capitalization and number of companies traded in 1996 and again in 1997. National Investment Fund (NIF) shares contributed significantly to the increase when they started trading in June 1997. At the end of 1997, the shares of over 140 companies were listed on the WSE with a total market capitalization of 44 billion Polish zloty (almost US\$13 billion) or about 9 percent of GDP. Equity volume on the WSE was 52.3 billion zloty (US\$16.0 billion) in 1997. Over 71 percent of the 1997 volume on the WSE was equity trades, in addition to 11 percent in NIFs. As of late 1998, the number of traded companies had climbed to 189, and total market capitalization was approximately 45 billion Polish zloty (US\$13 billion) or about 9 percent of GDP. The government is currently completing the first stage of privatization of the telephone company (TPSA), which should increase the total market capitalization of the WSE by over 50 percent to about US\$20 billion or over 13 percent of GDP. Treasury bonds for now are the only debt securities listed on the WSE. At the end of 1997, some 44 bond issues were traded on the WSE worth about 12 billion Polish zloty (US\$3.5 billion). In 1997, the U.S. Securities and Exchange Commission granted the WSE the status of a designated offshore securities market. In January 1998, the WSE initiated trading in its first derivative product, WIG 20 futures (which is a product tied to the WIG 20 stock index). The state owns over 90 percent of the shares of the WSE, and over fifty banks and brokerage firms own the balance of the WSE's shares.

CETO is in its infancy, but growing quickly. From two listings at the beginning of 1997 it had 14 at the end of the year and 23 by June 1998. As of December 31, 1997, the total market capitalization of the companies listed on CETO equaled 130 million Polish zloty (US\$37 million), which is .02 percent of GDP. CETO is owned by nearly fifty banks and brokerage houses.

Private placements (offers made to less than 300 persons) of corporate equities and debt and the public trading off the regulated markets (i.e., WSE and CETO) of Treasury bills and bonds is permitted by the 1997 Law on the Public Trading of Securities. Over 20 billion Polish zloty (US\$5.7 billion) worth of Treasury bills and 26 billion Polish zloty (US\$7.4 billion) of Treasury bonds were outstanding at the end of 1997. Companies issue short-term commercial paper in three forms: as a privately-traded debt instrument, as a bill of exchange/promissory note (not regulated like a bond), or as a loan document under the Civil Code (also not regulated like a bond). Approximately US\$800 million worth of short-term commercial paper was outstanding as of March 1998. Due to the current legal requirement in the 1995 Law on Bonds that a trustee with unlimited liability must be appointed for a publicly traded bond issue, there have been no publicly traded corporate bond issues.

Institutional investors dominate the Polish capital markets. Nonetheless, an increasing number of individual investors have opened investment accounts. As of the end of 1997, roughly 1.2 million people or 5 percent of the adult population had an investment account compared with nearly 900 thousand in 1996. Also, there were over 35 million holders of NIFs when distribution ensued in November 1996. Banks by far play the biggest role in the capital market, holding 64 billion Polish zloty (US\$18 billion) of debt and equity securities at the end of 1997; three-quarters of that total

were Treasury bills and bonds. In 1997, insurance companies had about 4.6 billion Polish zloty (US\$1.3 billion) of investments, of which they invested nearly two-thirds in Treasury bonds, almost 20 percent in Treasury bills, and less than 10 percent in publicly traded equities. As discussed below (Foreign Portfolio Investment), foreign institutional investors play a major role on the WSE and in the Treasury bills and bonds markets.

As of mid-1998, nine firms were authorized to manage investment funds in Poland. Altogether they managed twenty open-ended mutual funds investing in debt and equity securities with nearly two billion Polish zloty (US\$570 million) of assets. The 1997 Act on Investment Funds authorizes the creation of closed-end and mixed investment funds, but as of mid-1998 no such funds had been established.

In 1999, the government plans to implement pension reform, which will create privately-managed pension funds. These new pension funds are expected to become major investors in the Polish capital market.

Only exchange members (entities providing brokerage services) may operate on the WSE. Foreign brokerage firms, even 100 percent foreign-owned ones, may operate in Poland, but they must – like domestic firms – obtain a permit and maintain a minimum level of capital and a minimum number of licensed brokers on staff. At the end of 1997, there were 37 exchange members, all but 15 of which were affiliated with a bank. Exchange brokers are responsible for concluding, registering and settling transactions. As of the end of 1997, there were 293 licensed exchange brokers on the WSE, including 94 specialist brokers who help make markets in specific securities.

Market Regulation

The Polish Securities and Exchanges Commission (SEC) pursuant to the 1997 Law on Public Trading of Securities and the 1997 Act on Investment Funds regulates the WSE, CETO, investment funds, commodity exchanges, and the National Depository. It reviews and approves the prospectus for each new issue and licenses brokerage houses and brokers. The SEC has been ranked as one of the best regulators in the region according to the EBRD.

The Banking Supervision Commission of the NBP pursuant to the 1997 National Bank of Poland Act and the 1997 Banking Law supervises the activities of banks, which are active in the primary and secondary markets for Treasury bills and bonds, corporate bonds, and commercial paper. The NBP has received high marks from the EBRD and others for its supervision of the banking sector. The Chairman of the SEC is ex officio a member of the NBP's Banking Supervision Commission. The Polish SEC regulates bank securities activities. Banks are required to obtain a license from the Polish SEC to broker trades.

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The 1997 Pension Reform Laws established the National Office for Pension Funds, which will supervise pension funds when major pension reforms are implemented. Privately-managed pension funds are expected to become operational in 1999.

Foreign Portfolio Investment

Foreigner institutional investors as of the end of 1997 held an estimated one-third of the securities traded on the WSE (US\$14 billion), nearly 10 percent of the Treasury bills (over US\$500 million), and around 15 percent of Treasury bonds (about US\$1.2 billion). The Polish capital market has an insignificant number of foreign individual investors.

Poland is a net capital importer and has very little outward investment. As of the end of 1996, Poland had less than US\$800 million invested abroad, most of which was direct investment between related entities. The government is preparing a new Foreign Exchange Law which, among other things, would liberalize the rules for Poles wanting to make portfolio investments in member countries of the OECD.

U.S. PRESENCE IN THE MARKET

U.S. firms play a significant role in the Polish capital markets. As of the end of 1997, four of the 37 brokerage houses licensed to operate on the WSE were owned by U.S. controlled firms. Citibrokerage, owned by Citicorp, is one of the leading brokerage houses. Citibank is active in the primary and secondary markets for Treasury bills, Treasury bonds, corporate bonds, and commercial paper markets.

The Pioneer Group in 1991 established Pioneer First Trust Fund in Poland, which operates four local mutual funds. It also formed Pioneer Poland Brokerage House, which handles the securities trading for those mutual funds. As of mid-1998, Pioneer's four mutual funds had garnered an 80 percent share of the total mutual fund market in Poland.

Many U.S. investment banks offer advisory and underwriting services, including, among others, Merrill Lynch and Bankers Trust. These firms often lead the underwriting or otherwise participate in syndicated loan offerings by Polish companies. Roughly three billion dollars worth of Polish syndicated loans were placed in 1997. In addition, U.S. firms have acted as fund managers for four of the fifteen National Investment Funds, which were created as part of the government's mass privatization program.

TREATMENT OF U.S. FINANCIAL INSTITUTIONS

U.S. financial institutions can – and do – provide brokerage, investment banking services, underwriting, and fund management services in Poland. U.S. firms have not asserted that they have not received national treatment. However, U.S. financial institutions that participated as fund managers with two NIFs did state that their fund management contracts were improperly terminated by the government-appointed fund supervisory boards of those NIFs.

The 1997 Law on the Public Trading of Securities, the 1997 Banking Law, and the 1997 Act on Investment Funds provides national treatment for U.S. firms. As part of the accession process to the OECD, Poland committed to giving companies from OECD member states both access to the Polish financial services market and national treatment. Furthermore, Poland committed in its December 1997 financial services offer in the WTO to national treatment, without reservations, in connection with "Other Financial Services" for both commercial presence and presence of a natural person. "Other Financial Services" included, among other things, participation in issues of all kinds of securities (excluding Treasury papers) and provision of services related to such issues, trading of publicly-traded securities for one's own account or for customers, asset management services, and advisory and other auxiliary services to financial services.