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ISOLATION OR ASSOCIATION: A DIFFICULT CHOICE FOR A REGIONAL EXCHANGE - THE EXAMPLE OF THE BUDAPEST STOCK EXCHANGE

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Preface

It looks like time is over for almost everything that is purely or simply national or regional. Global harmonisation is not just a fashionable and somewhat futuristic approach anymore; it has become a part of our everyday life, a part of our business. The same is true for a national stock exchange, which has been able to go its own way so far, but now it has to face and adapt to the new challenges. A good example of this is the Budapest Stock Exchange (BSE), which, in addition to these new tasks, has been suffering from declining volumes, shrinking membership and a disappointed public in the last three years.

Our purpose with this market summary and analysis is to highlight the current problems of the Budapest Stock Exchange (BSE) and to define the possible strategies that could help propel the market from the current recession, recommending one possible solution in particular.

The authors of this document are Hungarian brokers with academic backgrounds. Since we have both been involved with the BSE as practitioners, our approach is not purely academic, but rather the opinion of well-meaning supporters who have had hands-on experience of the workings of the Budapest Stock Exchange since its early days.

Budapest, March 2001.

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It's time

The Budapest Stock Exchange is over its heroic, pioneering age. As the first re-opened East European listed market, from the very beginning on – that is, since 1990 – it has attracted outstanding attention. We remember well the continuous flow of foreign very important person delegations who came to marvel, to congratulate, to advise, and to enjoy some excellent dinners at the fanciest Budapest restaurants. Many of the current big wigs[1] of the Hungarian capital market have romantic recollections of endless disputes and long sleepless nights, when they secretly gave birth to Beeesee (BSE), how restless they got when she caught an easy sickness and what fears they had for her future… In the very beginning, even the word 'share' was forbidden.

But now, just no more excuses for the hard childhood. The BSE is a grown-up exchange, and the surrounding market does not like to be called a transition economy any more. Now it is Europe that is changing but rapidly and it is becoming a question of life or death to join or at least to define a working strategy in this direction.

As it will be outlined in the following, we are concerned that the beautiful lady might be too fastidious and in the end she might find herself without a suitor.

Nora Szeles – Gabor Marosi

[1] We do not dare to use the more appropriate expression instead of big wigs – the expression that became famous in 'Liar's Poker: Rising through the Wreckage on Wall Street' by Michael Lewis

1. Background

While we purposely neglect the most boring macro and micro factors that are normally detailed in a paper like this, the most relevant 'environmental issues' will be addressed to reinforce the conclusions of this essay.
In this chapter, we follow the accepted scheme of a financial study: financial and monetary politics, market participants, products, and legal environment. Then, the governmental strategy is introduced.

1. The Hungarian economy

The Hungarian economy is an open market, with all the bad and good sides of it. The most used ratio, (export + import) / GDP is forecasted to exceed hundred percent this year. We are completely exposed to the tendencies of the world economy which determines that the capital market has to open simultaneously, and the monetary policy is to support the process smartly.

Sustainable economic growth
This is the main target of the monetary policy, as it is highlighted in the official communication of the National Bank of Hungary. Disinflation has also been an issue of primary importance; in a communication of the NBH it is said that the weakening of the Euro/USD rate and the high oil prices are to be blamed for the breakdown of the tendency.
An interesting and long-awaited conclusion of the document, is that they finally seem to realise that the tools of exchange rate risk management – derivatives - are of vital importance, and further liberalisation is needed to enable this market to develop. (Thus far, futures and options have rather been regarded as enemies, or more positively as a spitting image of pure gambling.) Now, the National Bank is realising what has been declared by the European Union: 'the EU's continued status as a leading centre for the world's financial community relies upon the existence of a flourishing derivatives market.'[2]

Stability is the key
This entails a decrease in interest rates and a fixed exchange rate mechanism. Regarding the latter, according to the National Bank, a smart easing of the Forint intervention range would allow an appreciation that is still sustainable from the point of view of international competitiveness. It would as well contribute to disinflation, because the productiveness of Hungary is better than in the neighbouring countries. Although a reliable FX policy is a key to the desired market transparency, from some point of view it rather throws a wet blanket on the otherwise cute bank treasures: they think that until the Forint is not free-floated, it will remain on the bottom of the intervention range, so no real hedging is worth the forward points it costs. As a consequence of this, the repo, the FRA and the swap markets have almost totally dried up relative to their promising volumes before 1998. Of course, the persisting legal, accounting and educational blackholes can always be blamed, but the same traders were smart and tricky enough to deal with the same problems before, when they smelt profit. Now, bankers point at brokers and vice versa, and regulators at market participants and vice versa. Many of them say, that if the euro comes, when we actively join the EMU, only the back office will remain here, everything else will move to London, so why exert ourselves? But at the same time they are conscious of the shadows of a passive integration too: if local market participants, and above all, financial intermediaries keep on being reluctant and resistant to the overwhelming need for innovation, the London sharks will eat them up even before joining the Eurozone.

[2] Communication from the Commission, Brussels 1997

Increase in company profitability

This factor, together with decreasing interest rates and a fixed exchange rate mechanism normally contributes to the growth of the listed market both for shares and bonds. Shareholders, but also speculators require profit-oriented management. But as a matter of fact, at the company level, financial optimisation has not been weighted correctly: this is typical of a transitional period when the target is to accelerate the profit growth and to reach a significant market share. So most companies have not developed proper financial and risk management in conjunction with their banks as counterparts. A mistake on both the company side and on the bank side is that they seem to be waiting for the other to take the first step: the bank says that when it calls a CFO to offer a suitable financial product, the guy would not understand a word, although he manages millions. The company in turn says that the bank does has no idea what the company needs. But as expected in the third phase of a company's life cycle in classic economics, such management will soon not be able to waste a single unit because it will always and continuously need to make money. And then they will all use both the tailor-made and the standardised financial services offered both publicly and over the counter.

And what about new issuers?

The huge privatisation process, as the major source of IPO's, has finished. Those remarkable companies that are still state owned are either unable or unwilling to go public. There is a fluctuating demand for middle-sized newcomer companies, that fulfil the listing requirements, however, these have not reached the critical mass yet. Moreover, potential issuers of course are deterred by the stock market performance - that does not inspire them to get listed soon. It is as clear as day, that if they are not content with the prospects arising from the official market, plus they fear that the strategy of the BSE will lead the listed market into an impasse, they would either choose another market or find another way of financing themselves. But market participants agree that during the next decade many newcomers could be successfully launched, and their brokers are continuously searching for these potential corporations.

Procedure innovation

In most ventures, money and capital market news and information are not followed by quick and correct decisions due to the lack of proper decision-making processes: procedure innovation is another key task now. Multinationals are not decentralised enough – they still do not trust the local bosses, (this lacks good reasoning), and Hungarians have not established stable decision-making procedures. Most company treasuries do not have enough power by themselves. But as mentioned above, they soon will realise that the time for a risk-adjusted profit-maximisation, that is, for financial engineering, has arrived.

EU-harmonisation

As the official policy targets the EU, legal harmonisation is taking place. The advantages arising from this process serve the desired development suggested above. (Please find attached a table listing the latest legal achievements.)

These symptoms, however, are typical in the late-teens of market evolution. We believe that financial intermediaries and companies will very soon face real competition - that is, they will not be able to shift the costs of their bad risk management and of their poor investment strategy to their end-users and customers. This will then show up in the growing need for both the basic and the sophisticated financial and investment vehicles….So what shall we do now? The well-known slogan tells it to us: attack is the best defence. Product development and positive lobbying for a better, wide–scope regulation, to stand ready by the time it comes to real competition. The awakening of financial optimisation and risk management will head the active product and procedure innovation. If this development is backed by the right tax and other legal investor incentives, and the exchange develops an active market development strategy, acquiring adequate international access, then this market will be in high demand again.

2. The economic policy and the stock exchange

The current government made its first step *on* the stock market right before it was elected: during the 1998 May crisis, when Mr Viktor Orbán visited the floor. The positive effects of this short intermezzo resulted in a temporary halt in the price fall, and demonstrated the impact of a stock-market-friendly government. And then, times of long silence came around – not even during or after the big crisis in August could we hear their expected supporting espousal to raise the investors' spirits again – instead, there were plenty of declarations made by a couple of ministers, the Minister President, and even by the President of the National Bank, saying that there was nothing to be concerned about, while every morning news started with 'the prices will keep on falling today, analysts say'.
Then, the end of last year brought some positive changes.

The common valuation developed by the Hungarian government and the Economic and Financial Directorate of the European Commission on April 6th 2000, lists the medium-term priorities for Hungary's economic policy. The document outlines that the government keeps on relying on increasing domestic and foreign investment in listed shares in order to achieve its economic growth objectives. However, contrary to these plans, Mr Orbán stated during a national television news program on March 13th 2001, that, at the present time, the Hungarian stock exchange was not fulfilling its primary task of capital-raising. The President put forward the view that the stock market would be a much less important driver of economic growth than previously, and subsequently, the BSE would play a reduced role in determining Hungary's economic policy. However, in order to make good this loss, Orban underlined the increasingly important need to attract domestic household savings into the stock market, and his Economic Advisory Committee was currently preparing a package of measures that would help facilitate this process, he said. At the core of the Advisory Committee is the Exchange Development Committee set up by the Ministry of Economic Affairs in the autumn of 2000, made up of leading brokers, bankers, well-known business leaders and supervisors.[3]

As a result of their activity, the government, acknowledging the stock exchange as a condition and as a tool to reach its strategic aims as well as its inevitable role in sustaining a secure economy, has defined two fields of action. First, minority holders are to be protected in the case of mala fide buy-outs. (This was prompted by the scandal caused by the Borsodchem buy-out by Gazprom.) The modification of the act that will be on the spring timetable of the Parliament, will include a broader definition of the event and the obligations of the buyer.
Second, the schedule of the committee was accepted. In the following, we introduce only a summary of the anticipated action plan, since by the time this paper is finished, just some details and the main directives will have been published. Nevertheless, the initiative is remarkable, representing a good chance for the Budapest Stock Exchange.

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[3] The necessity of reform was prompted strongly by the increasing number of articles which appeared both in the domestic and in the foreign media, outlining the worsening situation of the BSE. A Financial Times opinion (February 2001) caused a smaller scandal because it said that most of the issuers were considering delisting, the market being so illiquid, that good single shares, once entrapped in the net of being undervalued, could not break out. (The example for this was NABI.) Referring to major fund managers, FT argued that the German, British or American listing would save these companies the costs of illiquidity. Although commentators declared the situation to be much less serious, the existence of the problems were not questioned.

The exchange development package

- Taxes

The committee would restore the private investors' tax-allowance for the profit realised on long-term investments that was abolished in the beginning of 2001. Whereas now the tax is deducted immediately from the realised profit, the new measure would allow a yearly consolidated tax settlement. This is a definitely positive initiative, the pity is that it neither helps nor brings back those vip day-traders who disappeared right after the January tax package came into force.
Moreover, companies seeking a new listing would get a yet unknown kind of tax allowance as a compensation for the extra costs arising from the listing. Although its impact on tax revenues is estimated to be only a couple of hundred million Forints a year, and of course the transparency required by the public is a tax-generating factor as well, (so this allowance is hopefully a good investment of the state!) it would mean exactly that millions of Forints for the company what listing costs. Further on, management option programs are welcome as long as they stimulate price growth.

- FX settlement of trades

The committee suggests the introduction of trading and settlement in foreign currency to help the Budapest market be more attractive than the SEAQ for trading in Hungarian GDR's.

- Allowance of index funds

Realising the extreme importance of investment funds and the current and expected demand for them, a long-time codificational imperfection is being corrected: the introduction of pure index funds. (Insofar as a maximum of 5% of the wealth of the fund could be invested in a single series, thus making the reproduction of the BUX impossible where the major stocks have a weight of more than 20%)

- Market alliances

A tighter co-operation with more developed markets will be welcome, examined and supported, and although the details of this point have not yet been published, the Ministry of Economic Affairs is probably thinking of the other bigger exchanges of the region. After all, the Commission judges the success of a regional project to be risky.

Understanding of course, that a government cannot always make its decisions on a pure economic basis, we believe - applying the views of Mr Lajos Bokros, director of the World Bank, former Minister of Finance and ex-President of the BSE, as appeared in an article in Bank & Tozsde - that if a state restricts the circle of accessible investment vehicles both for domestic and for international investors, then it creates therewith the legal ground for the nationalisation of the losses arising from unsuccessful investment policies. The world-wide acknowledged economist says that on a thirty year base, the costs of a restrictive investment policy were higher than that of a liberal one.

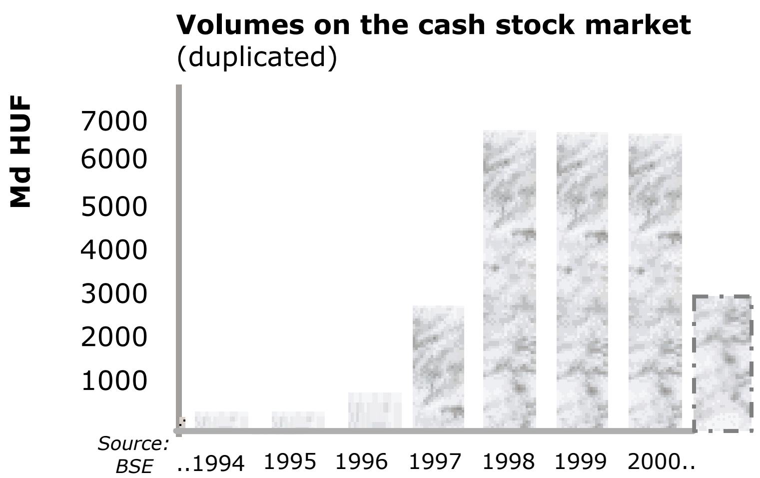
Well, the market has remained sceptical so far about the not-too-radical, not-really-comprehensive package; a number of market participants think they know already that the measures will not be sufficient to shake up and reverse the declining volumes nor to attract more issuers. But we believe that the initiative in itself is a very positive sign that the governmental policy finally includes the stock exchange in its everyday communication. Provided that the committee elaborates on these suggestions and co-operates closely with the affected market participants; that the government does not intervene again in the economy because of political reasons (as it has happened before in the case of MOL, for example); and that the measures come into effect soon, then hopefully by the end of this year we can all can take at least a deep breath of fresh air.

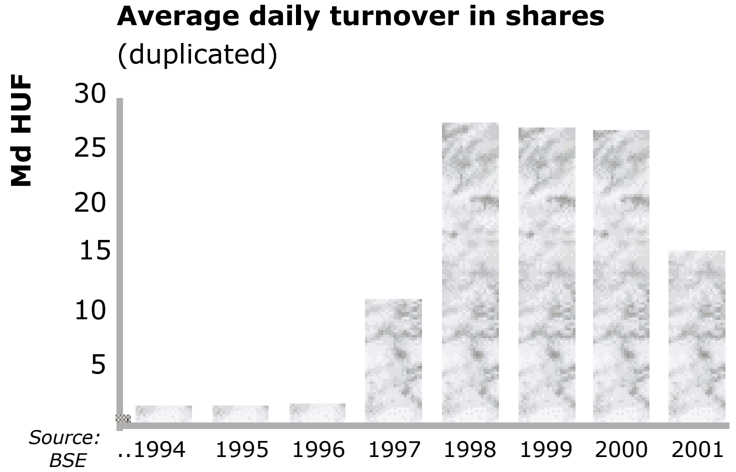
2. THE DOWRY: A DIAGNOSIS

1 First Approach: stock market review

This chapter contains most of the data in this paper. Hereby we line up the historic evolution of the listed investment vehicles in order to make our arguments detailed in the other chapters crystal clear.
So let us go through the following topics: listed and OTC stock market activity, number of shares and members, the BUX basket question and the free float ratios, and what about the once path-breaking derivatives? (Being somewhat irrelevant for the purposes of this paper, the bond markets are not analysed here)

<u>Stock market activity</u>
The profitability of market participants, inclusive of the stock exchange itself, correlates highly with the development of traded volumes. In the following part we would like to give a short analysis of historic data. (The BSE publishes the cash market volume as a sum of the buy and the sell side, that is, figures are duplicated)





To examine the development correctly, it is worth dividing the lifetime of the BSE into four periods:

- Launch, stagnation, slow growth (1990-1995)

During the years following the foundation of the BSE, its members made money primarily on government papers and compensation notes trading. The main reason for this was the flat market until 1995, and foreign investors could not become active due to the lack of really big IPOs. As a matter of fact, yearly duplicated volume could not reach HUF 100 billion, not even in 1995, almost five years after the path-breaking foundation came into existence. Regarding 1995 daily volumes, the ca. 250 trades with each at around HUF 0,2 million could not total in more than HUF 200 million (simply counted). In 1994, stock trading made up 27% of the volume, in 1995 it was 34% - and this was only 20% of all trading in Hungarian shares, while London conducted 70% of it and Munich another 8%.

- Times of spectacular growth (1996-1998)

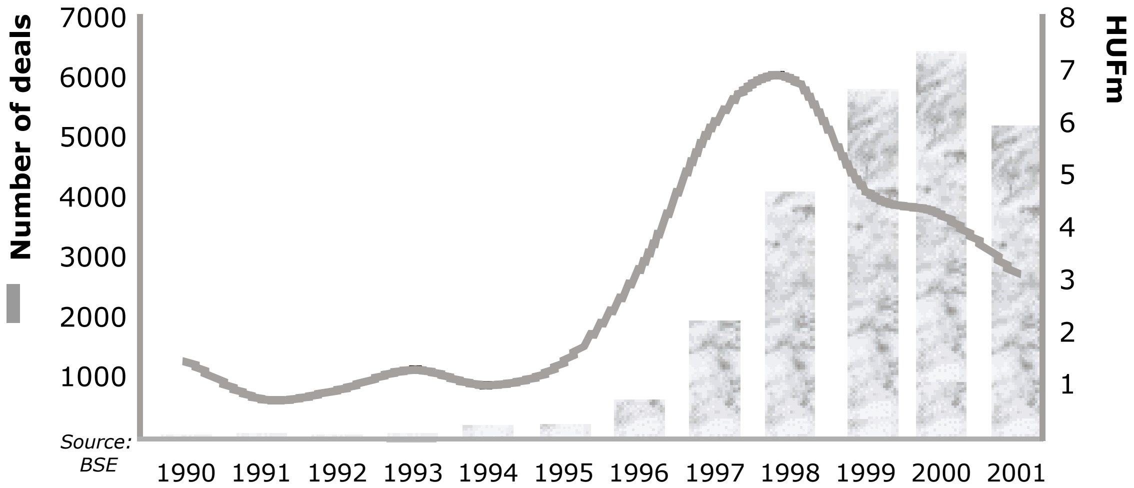
The economic stabilisation program starting in the spring of 1995 brought international upgrades, and the privatisation of large state-owned stakes (OTP, MOL, RICHTER and MATAV) attracted serious international investors in bulk. They appeared, and stayed. This period brought growing prices and volumes. The positive effect of the then-launched futures market resulted in serious arbitrage trading that sometimes made up some 10% of the total volume.
Liquidity was growing continuously, the simply calculated daily cash market turnover reached HUF 1 billion in 1996, the following year it exceeded 5 billion, and in 1998 this figure amounted to almost HUF 14 billion. The number of daily transactions averaged already at 4000 – a 650 percent growth, so in one trade the simple turnover was almost HUF 3,5 million.
As far as the competition for the transacted volume in Hungarian shares is concerned, the BSE managed to double its market share, as in 1998 when 43% of the total volume was registered in Budapest, whereas Munich dried up and the share of SEAQ decreased below 56,9%.
1997-1998 were the BSE's years of glory, when not even the endlessly arriving world-market crisis could curb that flood of liquidity – foreign investors favoured the Budapest floor because it never got too dry to hinder them in getting rid of their papers, although sometimes it did cause big price falls.

- Stagnation period (1999-2000)

The Russian crisis was too huge to overcome. Recovering has been taking a long time. Thousands of investors went bankrupt, many of whom dragged their brokers down too. The disappearance of typical speculators caused a blackhole, which we can now say is almost impossible to escape from. Bearing in mind the danger, the surviving or newcoming investors dare to undertake just a fraction of their capacity, in comparison to three years ago. The restricted conditions of client and own-account deals and the much smaller leverage (both compared to margins and costs) in derivatives and in lombard constructions are discouraging too.

The registered volume continued to decrease, even if only by 0,8% in 1999 – despite the introduction of a new trading system, the first phase of the MMTS (Multi Market Trading System). The trading time was also lengthened to enable the simultaneous trading with the European and American openings. Decreasing volume was explained e.g. by the developments of the property business, which got all astir at that time. We heard people saying that the lengthening of the trading time disabled many active market participants to follow the market, because this is impossible during their entire working hours. But we are convinced that the expected growth failed to come about just because the earlier OTC trades that had been done after hours and next day, and then crossed on floor, became part of the official trading, leaving nothing for after hours. As a consequence of this, although the number of trades went up to an average of 5845 per day in 1999, and to 6424 in 2000, it could not push up the volume. So in parallel with the increase in the number of trades, the HUF volume of a trade was decreasing, in 1999 to HUF 2,35 million and in 2000 to HUF 2,12 million, which is below the 1997 figure.

Average daily turnover and average single trade volume



Source: BSE

Continuing the story, the short general hausse in the end of 1999/ beginning of 2000 pushed the index above historic peaks, so volumes could recover temporarily. But the summer of that year was already marked by an even worsening stagnation that was interrupted only by some remarkable buy-outs (MOL, TVK, Borsodchem). All in all, aggregated volume in 2000 shows only a slight decrease (-0,4%), but it means a three-year bottom. Analysing the data on a USD basis, the situation is even more disappointing, since the decrease compared to 1999 and 1998 is 19% and 33%, respectively. During this period, the competitive marketplaces have been regaining strength, since in 1999 and in 2000, only 48,1% and 48,9%, respectively, of the total volume in Hungarian shares were registered in Budapest.

- International investors

As major sellers since the spring of 2000, foreign clients played a major role in the BSE’s coming to a standstill. Their intention was to leave this market, so brokers, who earned most of their living on the seriously large orders of foreigners, had to look for new, domestic clientele. As a consequence of the behaviour of the foreigners, the owner structure in Hungarian issuers changed significantly. The stocks sold by the foreigners were acquired typically by investors with acquisitional purpose, or by domestic pension funds and insurance companies that hold the shares long term, thus contributing to the tranquillisation of the market.

Owner structure of listed companies by sector

	1997 Dec.	1998 Dec.	1999 Dec.	2000 Dec.
Non-financial companies	3,54%	2,71%	3,85%	6,74%
Credit institutions	0,72%	0,65%	0,59%	1,19%
Insurance companies, funds	1,06%	1,68%	1,27%	2,65%
Other financial companies	1,71%	1,38%	1,55%	1,19%
Financial companies total	4,42%	4,74%	3,90%	6,11%
State budget	14,24%	11,47%	7,05%	8,25%
Households	9,42%	10,17%	5,86%	8,05%
Non-profit institutions	0,04%	0,06%	0,17%	0,13%
Foreigners (non-residents)	**68,32%**	**70,85%**	**79,16%**	**70,73%**
Grand total	100,00%	100,00%	100,00%	100,00%

According to the quarterly statistics published by the National Bank of Hungary (that table is not included), the highest foreign ownership was reached in March 2000 with a value over 80%, after a continuous rise of several years. Right after having reached the peak, it started to fall rapidly: by the end of the next quarter this indicator declined to 77,67%, by September there was another fall of 4%, and at year-end only 70,73% of Hungarian shares were in foreign hands. Although it is not a drama in itself, we have to see that its impact on the stock market is the multiple thereof, namely, it includes the strategically held, absolutely illiquid stakes as well. So if we estimate the average free float ratios at about 40-50%, in the mirror of this, 20% of the de facto traded stocks were sold by foreign clients within a single year, statistically a HUF 176 billion sale. The tendency itself is upsetting too, and we fear that by the end of this year foreign participation could fall below the three-year bottom.

- Period of dramatic diminishing (2000/2001-?)

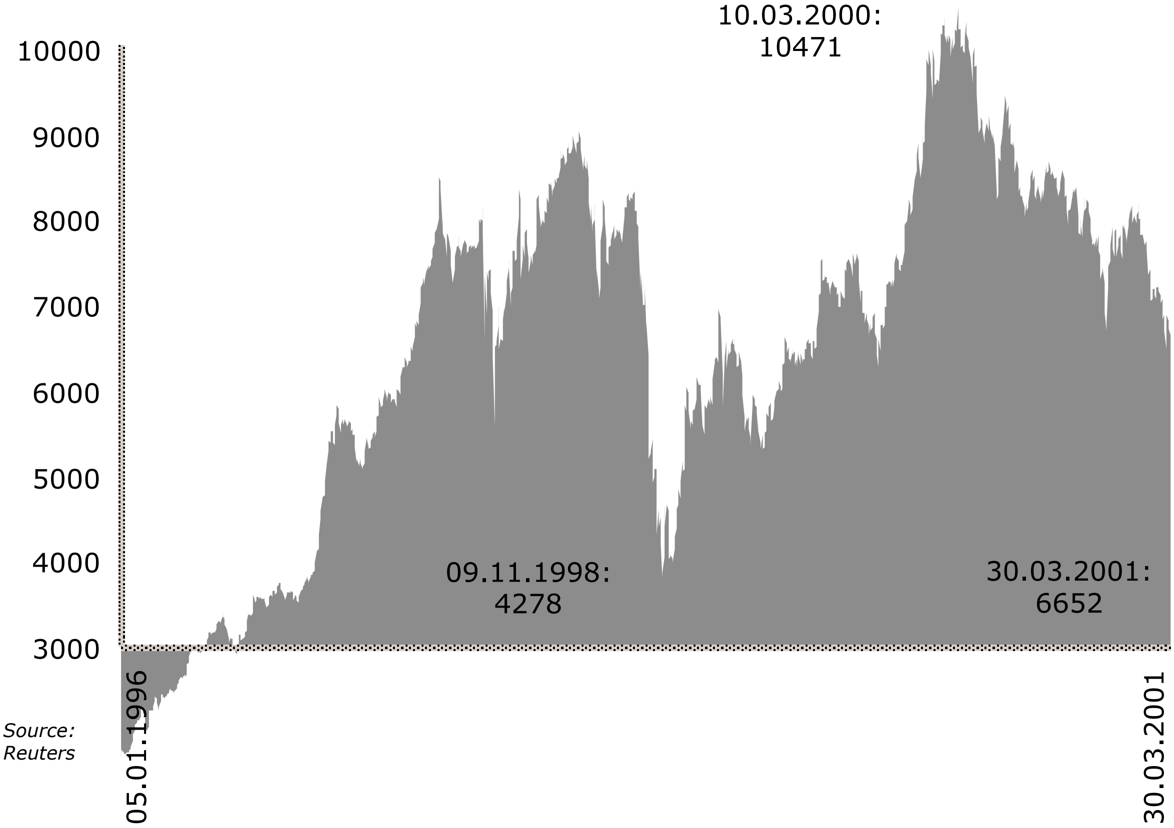
Simultaneously with the selling pressure on the side of the foreign market participants, their activity was also slowing down. This space could not be filled up by domestic activity, since the Hungarian investing society was still licking its wounds obtained from the Russian crisis. The market started to dry up, which process became definitely obvious by 2001. Another additive agent in this sad course of events was the then-abolished tax advantage on profits, and the 20% tax on all trading profits. These rules most affected investors who daytraded and speculated on the short run. Two months after the introduction of the new measures, which occurred in a period of narrowing volatility and serious profit warnings, this group of market participants, of vital importance for liquidity, diminished dramatically.

- 2001 and on…

So we missed the good old January effect this year, despite the extra business days introduced for the sake of the phenomenon (for the first time the BSE did not close in the beginning of the year). The January volume was not only less than the previous month but 54% smaller than that of the same period last year. Although February is a short month, so the 8% volume decrease after January is one thing, year-on-year this February produced 56% less than the previous one. The March figures are expected to overtake this tendency. No wonder that the number of trades was slackening as well, since less than 6000 trades were concluded with an average volume of about HUF 1,5 million underperforming the year 1996. This year, the daily aggregated, simply calculated volume was just slightly over HUF 8 billion, showing a 40% decrease compared to last year. Of course, the world-wide decline makes an impact on the Budapest market too: if Frankfurt and London show diminishing volumes, Budapest would not grow either, but this size of the fall cannot be explained by international tendencies.

Regarding the outlook? Traditionally, the second and third quarters are weaker in comparison to the first and to the fourth, so we calculate with a minimum 50% decrease to 2000, - only with a very small increase in comparison to four years ago! But as the ’liquidity attracts liquidity’ is a rule of thumb, its opposite is true as well, so an even worse scenario could as well transpire.

The Evolution of the BUX Index since January 1996



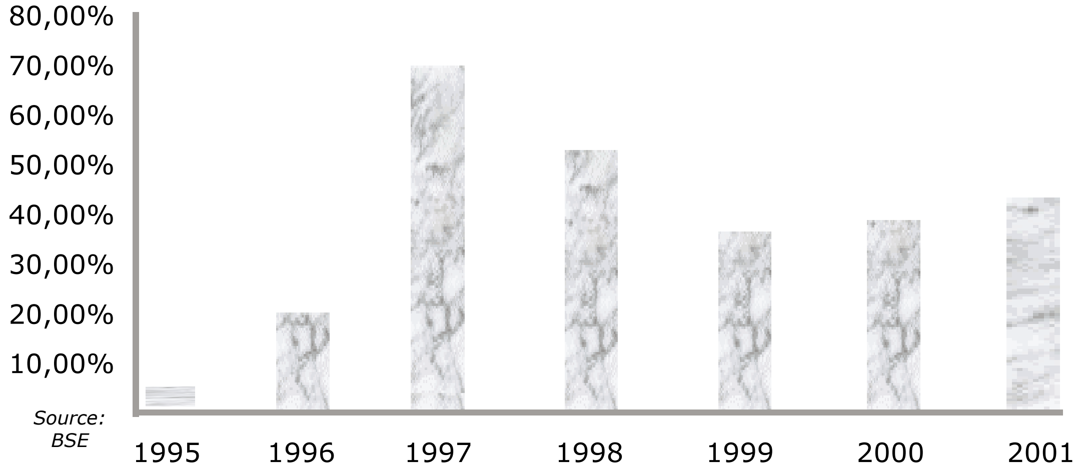
Source: Reuters

2. Second Approach: what about derivatives?

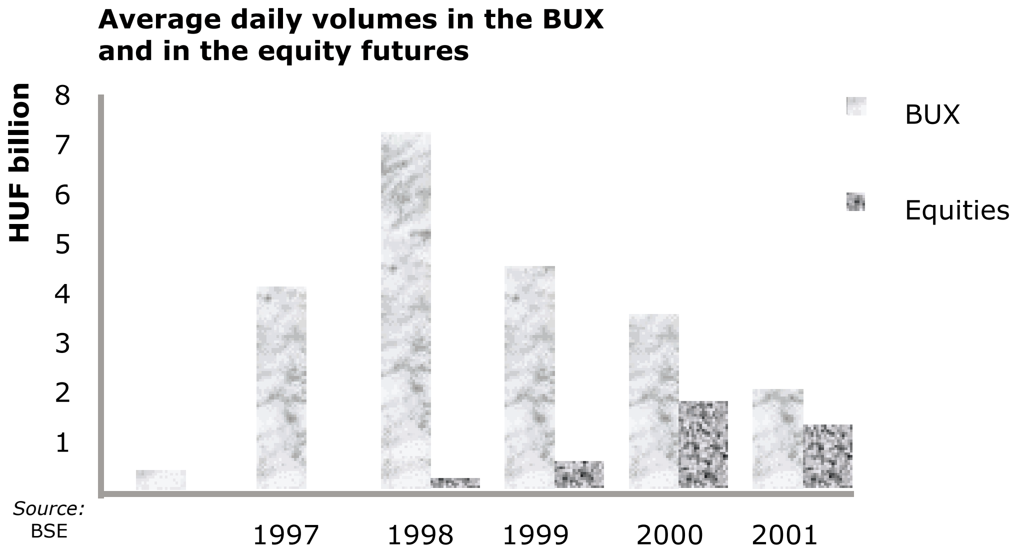
The launch of the futures market in 1995 occurred at a fortuitous time. Although it was just a coincidence, the economic stabilisation program of the former government was announced just a few weeks earlier, enabling market participants to calculate exactly with the strict crawling peg when speculating on the Forint. Anyhow, since the great growth started a year later, during the first year market participants could get acquintanted with the so far completely unknown equity derivatives (interest rate and FX products had been in existence on the interbank market, and on the Budapest Commodity Exchange (BCE) before). Equity derivatives established themselves and commenced to develop spectacularly as the only working standardised derivatives in Eastern Europe. To date, the BSE lists seven contracts. Besides the BUX, futures and option contracts are traded for the four most liquid shares. Interest rate products, although last year a three-year national bond contract was listed, just could not get popular, and on the currency derivatives market the commodity exchange and the interbank market are too strong rivals. In 2000, 98% of the income of the BSE arising from futures was produced by equity-linked products, whereas among the listed options only the equity-linked ones were traded.

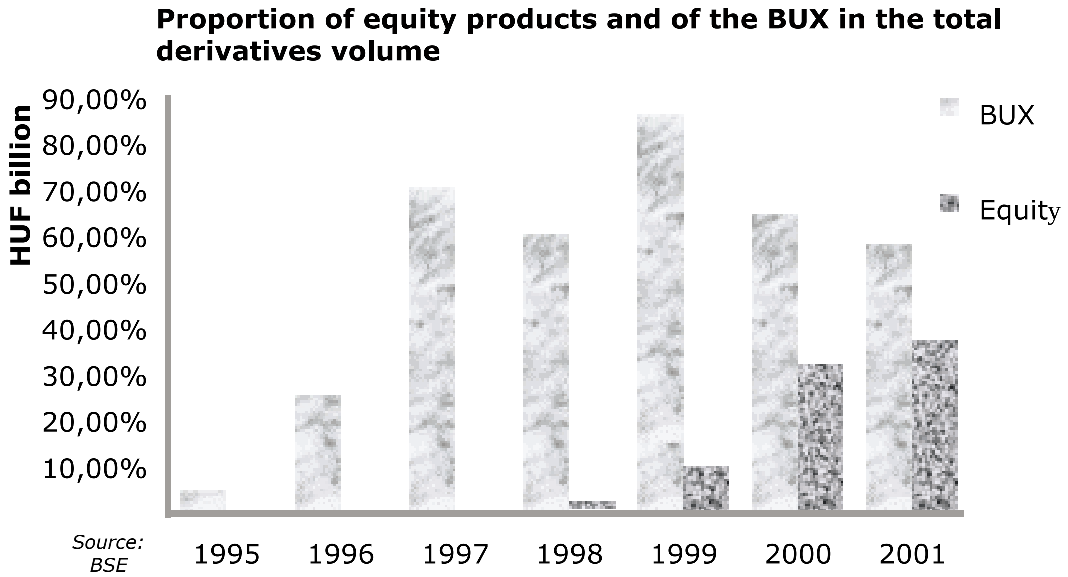
Although from the point of view of the BSE the derivatives market is not a profit center in itself, this segment is the key for the BSE in offering full service to end-users and intermediaries. The initial costs arising from the launch of such a new market are recouped from the volume-generating impact on the cash markets, thus from the transaction fees thereof. The same can be said from the broker's side, since even in 1997, when the volumes in equity-linked derivatives reached 70% of the cash volume, commissions were a lot lower than for the cash transactions. And now, two years after the Asian and Russian crisis, which caused a bigger fallback in derivatives than in cash instruments, the cash-derivatives volume ratio has stabilised at around 40%, producing a 5% share in the income structure of a brokerage house. Taking the generated cash volumes into account, a fair calculation would show a 10-15% contribution to the incomes, therefore, even from this purely economic point of view, the impact of the derivatives market cannot be separated from the underlying market.

Turnover in equity linked derivatives compared to the turnover in cash equity



Source: BSE





It seems reasonable to analyse the development of the futures market in two parts.

Market launch and rapid growth (1995-1998)

Although the very beginning was promising as well, it did not show in volumes. It took about a year until market participants got active, but in the beginning they favoured the cash settled 3 month T-Bill and currency futures. (Yes they are cash settled until now due to lack of interest for physical delivery, because the regulatory and procedural background has changed positively since the launch of these contracts.) Parallel to the introduction of the continuous open outcry (beforehand a kind of fixing system was operating) – futures, and especially the BUX, had become a significant market segment. Activity in the latter product started to speed up: in 1996 total turnover reached HUF 50 billion, and 1997 brought a twenty-fold growth to HUF 1000 billion. The hilarious year was 1998 when the HUF 1833 billion turnover was registered – with the contribution of three percent registered in three individual equity products listed meanwhile. In these golden times of liquidity daily turnover was over HUF 7 billion.

Continuous slowdown (1999-..)

Foreign participation on the futures market has always been a lot smaller than in the underlying market (due to regulatory problems), so market events have always been defined by the domestic investors' behaviour. The Russian crisis broke the spectacular development and made many participants go into insolvency and bankrupt. It converted the classic fairy tale about the ugly frog transformed into a beautiful maid by a kiss - the once fabulous gearing proved to be a mortal poison. As a consequence of the drama in August 1998, practically all private client derivative brokers ceased their market activity, making the drying up irreversible.

Only an eight-month-long upswing brought back some hope, when the BSE closed the floor and integrated the derivatives into the electronic trading called MMTS I. The homogenous trading platform seemed to solve the major problems of risk management brought to light by the crisis in 1998. Between September 1999 and March 2000 volumes picked up, but then this tendency ran out of breath. When MMTS II, the final trading platform for derivatives started, the turnover kept on falling, even despite the then-available real time clearing. In our view a significant reason for this is that the integrated trading platform that was available only in MMTS I, eased a lot on the market overview: the decreased number of brokers could easily handle the smaller volumes in different products on the same screen. MMTS II does not enable this, e.g. in the trading window called 'price info' futures instruments cannot be included. Basket orders cannot be made, which would ease the still popular index arbitrage, and many other features which were required by the brokers still at that time, when the international tender for the new trading system was specified. Yet the system alone cannot be blamed; it does not support some critical functions required by market participants. (Obviously, the management of the BSE would never share this view.)

As it turns out from the above graphs, the decadence does not affect all products the same way. Although BUX is still the primary product, in the first quarter of this year another 43% fall was registered compared to last year (which was already less than a half of the 1998 figures) and to the same quarter of 2000, it shows an even bigger, 68% drop. So in spite of the lengthened trading time, activity decreased to its one-fourth. Today, BUX provides only 58% of the daily trading, whereas in 1997 its share was 97% - of course, in itself it would not be a negative fact, but the total market has diminished too much. We cannot include miracles in our forecasts so we think that the BUX market will not exceed a daily average of HUF 2 billion by the end of this year.

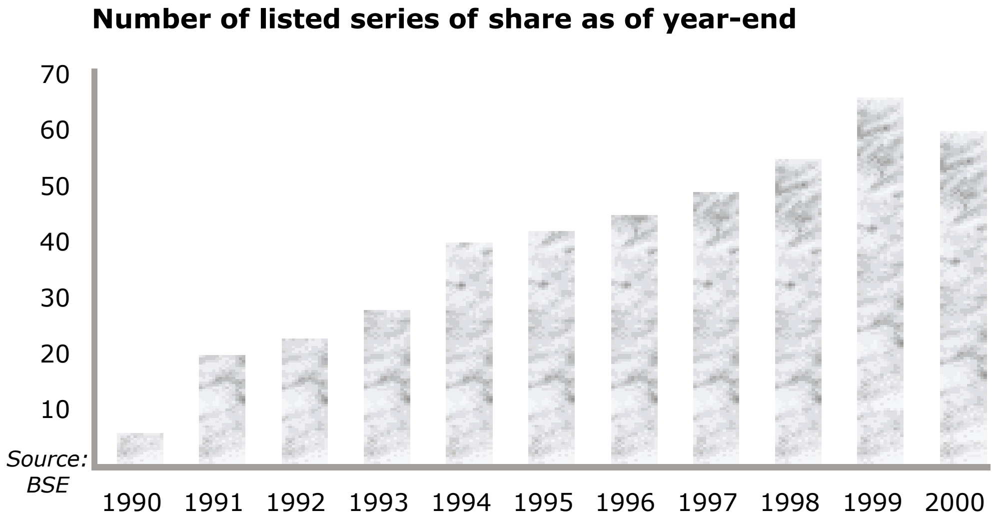
Individual equity products, which are quite rare world-wide - Liffe e.g. is introducing products of this kind only now, and precisely on American shares, as in the US they are prohibited – mean cold comfort to derivatives fans, although this market segment alone could show growth in this period. The HUF 441 billion turnover in 2000 could counter-balance the solid figures of the BUX market. Nowadays the market share of the six equity futures approaches 38% - but there is no liquidity in the background. Market makers provide quotations, but most deals are just crossed, they have been done formerly. The market uses this strategy to proxy lombard credits, therefore the turnover in the underlying market has a direct impact on this business. Moreover, the transition of lombard credits into futures positions is coming to its end, and we fear that even this solid growth will deteriorate soon: since the end of 2000 we've already noticed a 28% drop.

The BSE will surely try to list more products, probably new single equity contracts, which alone will not create liquidity, but perhaps counter-balance the consolidation of the current products.

3. Third Approach: interesting numbers of listed shares, members, brokers…

Number of stocks

Ever since the BSE was founded, the number of listed products and their rate of growth have not been abundant. This problem is especially remarkable in the case of the stock market.



- Slow but continuous growth (1990-99)

Whereas the turnover has multiplied since 1996, the number of shares reached 40 already in 1996, and even by 2001 it could not exceed 60. But until 1999 a yearly growth could be shown; that year brought the historic record of 66 series. There were three years (1994-97) during which the most remarkable companies appeared (MOL, MATÁV, OTP, RICHTER), which shares have been the most active ones since then. This first wave was generated by privatisation, whereas since 1998 it has been the compulsory listing prescribed by the Securities Act that made large capitalisation companies go public – e.g. electricity and gas corporations. Now, these papers belong to the boring sector marked by slight turnover.

- Delisting times (2000-…?

Last year was the first year when the number of listed companies decreased significantly - by six, that is, by a mere 10%. Total face value of the listed shares decreased only by 2,6%, (HUF 17,8 billion). But this tendency does not seem to stop this year. Some of the former favourites – Humán, Fuzfo Papers, Aranypók and Kékkut Mineral Water – are leaving the market. The BSE is partly to be blamed for this, having raised the yearly fees, making the listed status even more costly. (The BSE has recently announced that it would like to impose turnover-related yearly fees, but no details are known yet.) In the absence of new IPOs we expect a further decrease in the number of listed companies. A painful momentum might occur if the owners of TVK and Borsodchem decide for delisting. (The owners have already bought out the controlling stake in these companies, and under the pressure of the new regulations currently under codification they will have to offer to buy the shares of minority holders.) This would then break the untouchable high society of blue chips too.

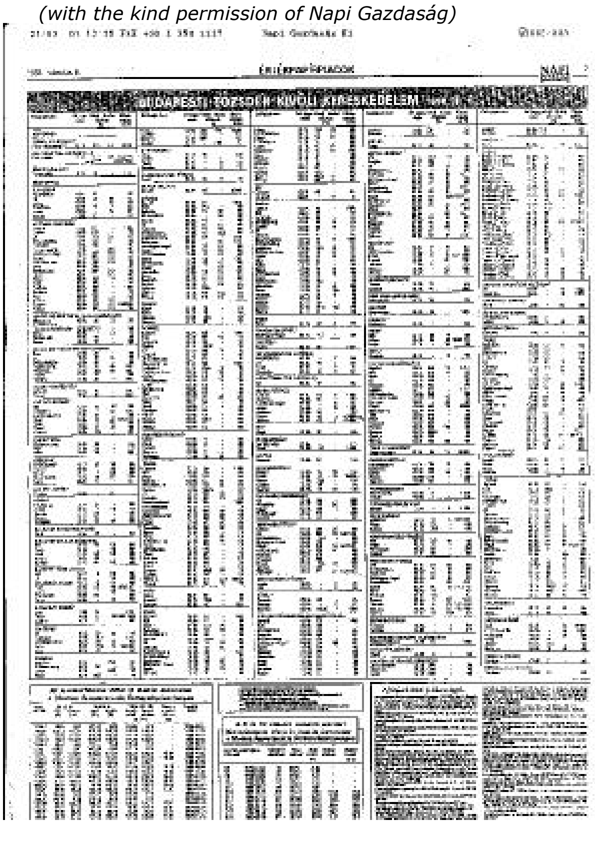
We find that the major problem regarding the issuers is that it dates back years when the last new issue or a public capital increase took place. In the last 18 months there were only two remarkable company events: the state-owned stake in Borsodchem went under hammer two times, and a smaller stake in Antenna Hungarian was sold at a disappointing auction. This step at the time of finishing this case study means the end of this marketing method. By now, it has become obvious that those 'exchange-rangers' – MALEV, Postabank, Hungarian Post, and the state-owned stakes in Richter and MOL – will not be listed either, mostly because these corporations count on strategic investors' getting in. The only remarkable listing of 2000, that of Graphisoft, unluckily, was not accompanied with an IPO, since only those series were introduced that had already been traded successfully on the 'Neuer Markt' with a peak right before the Budapest launch, but the favourable tendency was soon running out of breath and ended up in a serious price drop. This event surely does not motivate other successful midCap companies to go public. (In addition, the market expected Graphisoft to soon get into the basket of the BUX, and it has not occurred even until now – because the stock has been underperforming the requirements.)

Under the auspices of the new market participant acquiring strategy, the BSE is about to open a new category currently called 'T –market'. In some countries such an almost OTC segment is a success, in others to a much lesser extent – e.g. Prague launched the so-called 'New market' in the beginning of 2000, without a single issuer until now.

<u>The OTC market</u>

Hereby are two copies of the same page called Securities markets in the daily newspaper, Napi Gazdaság. The first picture is the copy of the March 6th ,1998 edition, the second is that of March 5th , 1999. Whereas the first is completely full with the OTC market makers' prices, the same column just a year later occupies about one-fifth of the page… And today? Nothing at all. We think that it would be a smaller problem if the volumes would just have left the floor, but this is not the case: volumes have disappeared. Interestingly, a good couple of OTC favourites, like gas and electricity companies died immediately as they were admitted to the official market. The other reasons why the once flourishing OTCs declined were the buy-outs (e.g. Budapest Bank was bought by GE Capital), and the lengthening of the trading hours as mentioned before. In addition, a modification in the Securities Act abolished the public quoting for non-public shares.

(with the kind permission of Napi Gazdaság)


BUDAPESTI TŐZSDÉN KÍVÜLI KERESKEDELEM


Lemerzsolódó

Fizetési felszólítás kárpótlásijegy-ügyben

Saját részvényt vett a CUG

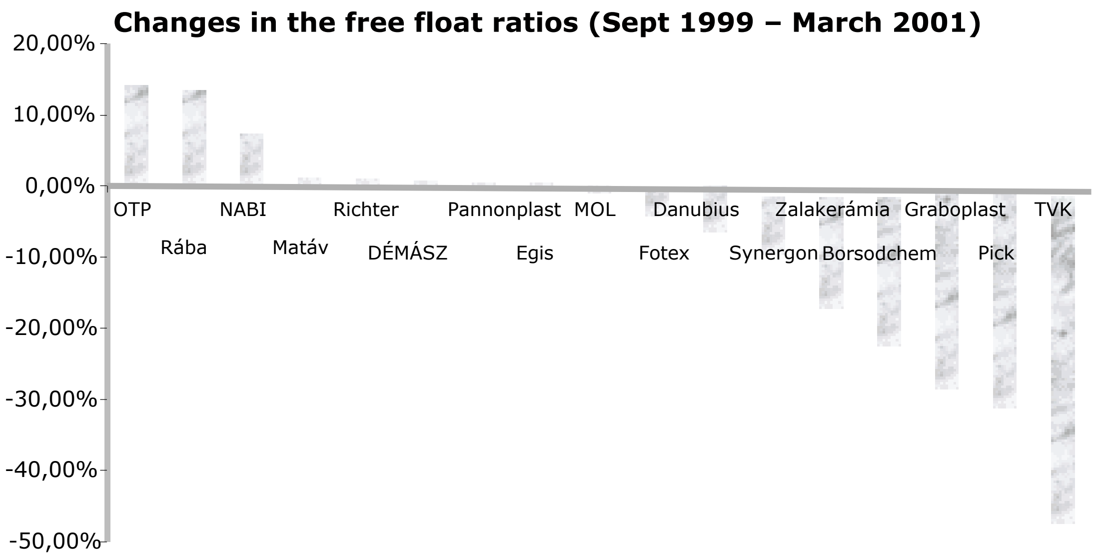
NAPI befektető

Találjuk meg együtt az ideális partnert!

Changes in the free float ratios of the shares included in the BUX basket

That liquidity is the key to attracting more liquidity, is a capital market commonplace. Easy to say, hard to analyse. The usually used factors - number of transactions, volumes, turnover – have been described before. Velocity is a frequently used measure too, but the free float ratio shows more correctly the limits within which liquidity can grow. Therefore we think it is worth including this point of view in the general analysis, focusing on the papers in the BUX.

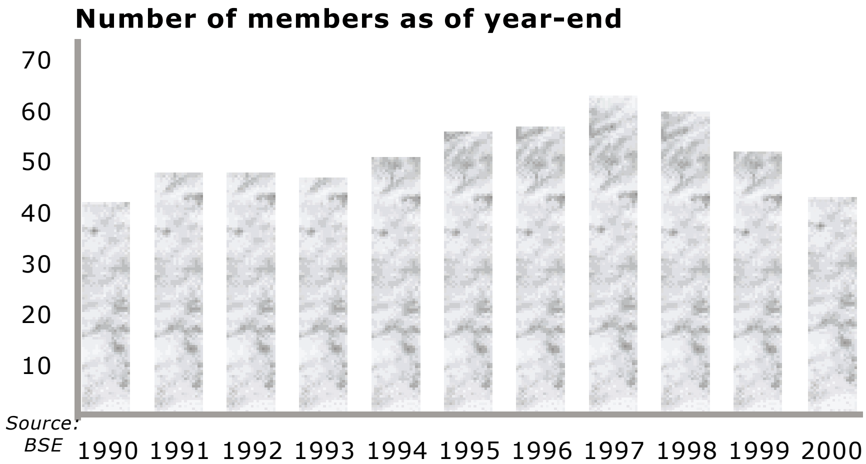
In 1999 the calculus of the BUX Index was modified by cancelling the 15% weight limit to let the free float ratio determine the introduced weight of a given series. In order to avoid the overweighing of some bigCaps – esp. MATAV – a new, much more flexible condition was added, which allows free float ratios to be partially neglected above a certain level. With this step, the then-listed bigCaps – gas and electricity companies with a small free float and neglectible liquidity - were not included, so the BUX became much more tradeable. The reform was a real success, and it occured even a step ahead of the international exchanges: later, the IBEX and the FTSE were modified in the same manner.
A further advantage of the decision was the possibility of building up a valuable database of the free float ratios of basket papers. Since the reform there have been four index reviews, which can be analysed on the base of the free float ratios already. The lack of new issues marks the index as well, since instead of the possible 25 series, even after the March 2001 review, the index will conclude only 18, as of September 1999. Because Primagaz was replaced by Antenna Hungaria, 17 papers are eligible for analysing.



When examining the development of the different free float ratios, the first impression is that some have grown, and some have dropped in this period. But digging deeper, and neglecting the smaller technical changes, looking at only the at least 5% changes (compared to the registered capital) the situation is definitely worse: among those eleven issuers where the free float changed with more than 5%, the ratio has improved in the case of only three companies and in the other eight cases it has decreased. The growth of OTP is the largest (14,2%), but the total of the three does not even approach the 46% loss of the No. 1 looser, TVK, or it hardly exceeds the second large loss of 30,2% in Pick or that of Borsodchem (27,6%). In addition, two of these three companies belong to the six blue chips. The fall in the free float is caused primarily by buy-outs, plus due to the grey interpenetrations in the owner structure of Borsodchem, it is not excluded that the real free float has diminished even more. The narrowing of the free float ratios has obviously accelerated by now, since the majority of them have occurred since the September 2000 review.

Number of exchange members

This indicator can also be used when striving for a complete diagnosis of the Budapest Stock Exchange: the imaginary graph of this figure goes in parallel with the development of the stock market.



Source: BSE

- Stagnation in the beginning: 1990-93

Right after the foundation of the BSE in 1990, for three-years-long the number of members had been stagnating at around 47-48. The market was definitely over-brokered compared to the number of shares, brokers were involved with the privatisation and tried to involve themselves in many IPOs. The then-current Act on Securities forced the banks to abandon the floor as their broker-daughters took over their place. In 1990, 21 banks owned membership rights, then by 1993 this number decreased to one: the National Bank kept on trading in government papers directly.

- Upswing: 1994-1997

The following period is marked by strong development: due to the rapidly accelerating growth of the securities market, by the end of 1997, a 132% increase can be observed with the top 62 authorised brokerages.

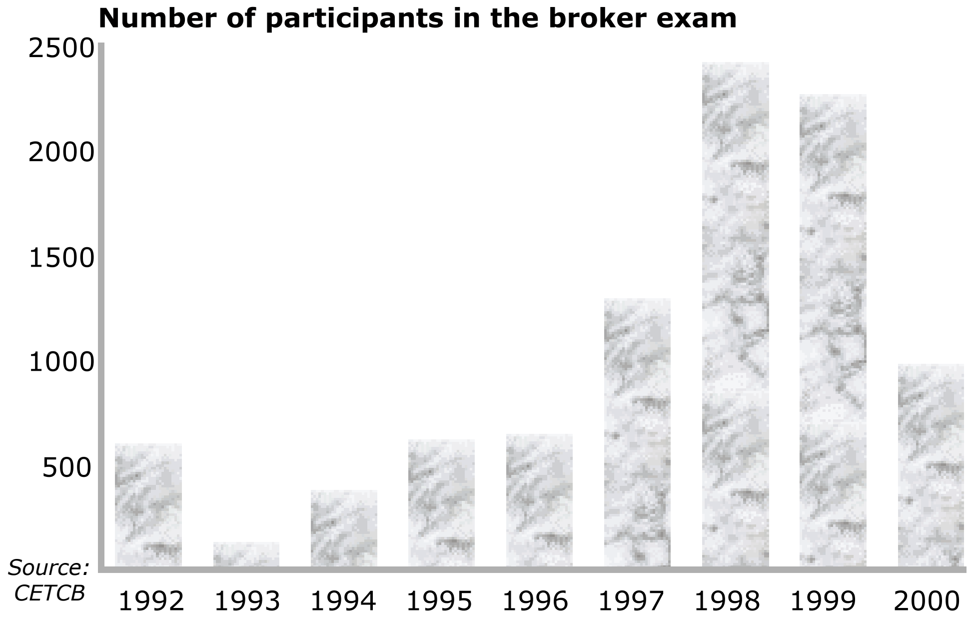
- Deterioration: 1998-..?

The Russian crisis broke this tendency, and threw many houses to the brink of ruin and over. During the few months remaining till the end of the same year, the number of members decreased to 60. While in the beginning mainly the broken companies left the floor, 1999 was already marked by mergers and acquisitions, since many of the survivors lost their clients, who either went bankrupt themselves or decided to turn to another broker of stronger reputation. Other houses acquired new clientele by buying out smaller brokers. Weak, small-sized, one-man-show companies, that typically were founded for one grandiose business and where the only matter was to get rich but quickly, disappeared. Now, the Wild East times, even if this was a moderate version (that is, it was more regulated and transparent than elsewhere in the region) are completely over. In 2000, ten other houses closed, the number thus reaching a ten-year high. This year we foresee the tendency to continue totalling in at about 35 exchange members, and probably zero OTC brokers.

The modification of the Act on Securities includes the comeback of banks, five of which have become members already, and although we doubt that their direct comeback alone could repair the volume charts, their presence is definitely good for the investors who try to avoid intermediary risk.

Participants in the broker exam

It might look unusual at first sight to include this point of view, but since this certificate has long been considered as the entry ticket to heaven (of the rich), and people of the most diverse ages, vocational and life backgrounds have tried to go for it, the participation indicator shows the people's view on the short-term prosperity of the stock exchange.



For 2001, the Central-European Foundation for Brokers' Education forecasts a maximum of a thousand new candidates.

4. Changes in the profitability of the BSE members

In forecasting the profitability of the brokerage houses for 2001, the audited balance sheets of 1999, and the interim figures in the quarterly reports help us determine the effect of the drastic decline in the turnover of stocks. As set forth in a decision of the Board of the BSE, all the data arising from the operation of the broker houses are public and accessible, contributing to market transparency in order to help investors choose among the broker houses.
Published figures of the period cover balance sheet information of 41 companies, among which three also pursue corporate banking. Although 1999 figures of net retained profits are accessible, two banks and six brokerages did not consent to the publication of the preliminary fourth quarterly figures for 2000, and 1999 figures of two brokerages are not available at all. Among those six, two brokerages showed a deficit and a further three worked at an alarmingly low rentability - probably the exclusion of the public in most of the cases is a result of loss increment. Nevertheless, only one of them explained the withholding of the interim result figures, saying that the company had been concluding the majority of its trades at the Commodity Exchange, therefore the figures would not reflect the real situation.

As the matter of fact, 29 brokers are observable during both years, not taking the single corporate bank into account. (Hereby we would disregard the banks, because the results of investment banking are not segregated in its financial statements available to us.) The firms suitable for this investigation represent the majority of member companies, including the ten largest ones. The volume generated by these 29 companies exceeded 70% of the total turnover in 1999, and in 2000 this ratio was 85%, which is found high enough to draw general conclusions from.

The set of figures available for both years is limited to the income from commissions, to operating profit, to own capital and to profit after taxation. The development of the revenues from commissions is the most interesting, although only the total of the fees are shown, including the result of the cash and the derivatives activity both on the exchange and OTC. But let us assume that the proportion of derivatives in the total income arising from commissions varies between 5-10%. The other practical simplification is that the future of derivatives income depends fully on the behaviour of the underlying markets, making it unnecessary to calculate its development separately. The income from foreign trading is still negligible, however. If the decline continues on the BSE, its proportion will presumably grow. During the calculations the average commission for the total market, own account and client account fees are not separated just as these numbers are not separated in the available statistics either. (Own account trading makes about 10-15% of the total registered volume.)

Main operating figures of the members of the BSE

	1999				2000			
	Capital	Commissions	Profit	After tax	Capital	Commissions	Profit	After tax
ABN-Amro	504,582	764,027	162,992	133,831	301,668	727,007	-238,275	-247,703
Aegon	-1,839,870	109,764	943,918	784,143	3,115,042	51,089	1,534,484	-1,275,171
BudaCash	811,072	651,376	-345,750	80,223	902,110	1,044,843	56,873	98,580
Biztonság	118,797	59,996	-4,266	1,016	123,614	56,577	778	4,817
CAIB	4,585,266	1,210,410	1,926,611	1,365,788	4,719,075	1,603,066	1,769,244	1,133,811
Cashline	1,218,701	223,348	-11,588	111,449	1,500,943	925,365	226,468	282,242
CIB	6,324,935	164,306	1,080,027	994,712	5,485,568	268,310	1,051,789	960,633
Concorde	1,725,569	826,284	723,154	506,594	1,912,695	1,245,475	585,826	452,126
CSFB	2,926,172	667,927	488,504	793,104	3,532,082	721,692	471,607	605,910
DHolding	782,889	220,184	148,724	-217,664	235,193	169,024	-43,395	162,605
Duna	1,039,459	572,991	-37,887	-132,223	1,078,070	478,274	-145,952	38,612
Eastbroker	712,653	358,626	116,171	126,671	1,062,703	544,631	12,979	50,051
Equilor	245,523	87,176	3,037	12,397	305,682	113,825	9,725	-19,291
Equitas	232,205	124,175	-35,611	-6,070	214,128	132,197	-27,880	-18,077
Erste	2,403,282	1,165,700	286,444	337,877	2,460,408	1,204,303	209,701	127,125
Generál	194,416	73,834	-17,653	8,273	201,530	54,951	-1,658	7,132
Hanwha	140,527	19,916	-70,104	-86,933	1,085,164	33,188	-38,502	-55,768
IE-NY	1,334,004	721,954	1,799	53,263	1,352,106	705,550	-180,192	-181,898
INGBaring	2,556,318	568,243	-43,031	226,326	2,882,046	673,984	117,008	325,728
Investpoint	136,515	13,720	-24,407	-19,049	126,234	38,979	-14,922	-10,282
Király	256,250	173,521	-69,674	-53,910	240,681	97,539	-13,175	-15,569
MKB	2,065,022	211,095	302,067	173,020	2,066,996	517,493	-15,158	1,974
Nomura	969,948	132,831	-61,733	-59,772	1,010,032	235,342	22,778	40,084
Postabank	1,403,493	328,905	146,229	-40,125	1,096,277	279,498	-268,667	-307,216
Quaestor	1,649,969	555,186	373,571	250,067	1,843,341	454,957	207,766	193,371
Raiffeisen	1,363,786	193,803	417,253	291,383	2,301,071	293,983	285,564	227,286
Takarék	2,400,279	286,226	301,601	267,125	2,654,290	411,018	579,284	254,011
Wintrust	275,282	139,575	46,754	-9,758	232,810	99,969	-51,946	-42,472
Wood	1,383,921	201,292	242,838	204,049	1,606,142	528,686	262,817	222,223
Total	41,600,705	10,826,391	6,366,558	5,828,145	45,647,701	13,710,815	6,364,969	5,565,216

Overview of 1999 and 2000

In spite of the moderate slowdown of the stock turnover, during the two years the majority of the firms were able to increase their income from commissions. Among the 29 members there were 16 broker houses that could increase their turnover and income, and there was another house that could join the sixteen in terms of growing profitability, but it showed declining volumes. Three brokers suffered falling commissions despite growing volumes and another eight had lower volumes and commissions. The peer group, the top ten, with the exception of one member, succeeded in raising both volumes and commissions, whereas only about half of the other 19 could do the same. In addition, 90% of the growth in the total commissions were generated by the peer group. These results show a 27% or HUF 2,88 billion advance in the revenues from commissions in comparison to the previous year.

At first sight a favourable scenario evolves when examining the commission rates. Whereas transacted volume of the 29 exchange members grew by less than 20%, the average fee paid by a client climbed from 0,2223% to 0,2373%. Eight companies out of the ten succeeded in earning more on commissions, whereas out of the remaining 19 less than half managed to do the same. But not a single one of the total group could increase its commission fee rate; in reality, the growth is just optical, as it is due to the take-overs and to the reinforced sales activity focused on domestic private clients who traditionally pay higher fees than institutionals, whereas own account trading narrowed, therefore the average commission per client transaction increased.

Regarding the own capital figures, a 9,7% or an aggregated increase of HUF 4 billion could be booked in 2000, amounting to a total of HUF 45,6 billion in the own capital of the 29 houses. This is our favourite indicator, since it is positive for 21 companies out of the 29. The number of companies, however, that closed the 1999 business year with a loss was 13, whereas in 2000 this was 12. Eight companies had to close their second consecutive year with a negative balance, but most of them could improve the figure by 2000. A further four slipped into losses, but five companies could boost their results into the positive region. Having analysed the after-tax results the same way, at the end of the period in question we see only one more company by category without profits. In the peer group, we find just two companies with operating losses and another one with after-tax losses – among the other 19, about half of them made losses already in these two years.

Furthermore, in spite of increasing revenues from commissions, the total of the operating profits dropped to HUF 6,36 billion from HUF 6,37 billion, the summarised profit after taxation fell to HUF 5,57 billion from HUF 5,83 billion. There were only 15 firms among the 29 members which were able to improve the operating profit, and only 12 could show a rise in after-tax results. It is striking to see that the improvement is not at all due to the top ten, as only three of them could increase the operating profit and only two the after-tax profit. (This is partially due to the increased number of acquisitions resulting at once in greater expenses). The fall of the bond yields in 2000 might play an important role, plus the inflation (10%) and the ongoing increase in wages and related costs also contributed to the worsening profitability. To show the vulnerability of the income from commission fees towards arising costs, we point out the fact that whereas in 1999 still 53,83% of the commission revenues appeared on the balance sheet in the form of after-tax result, this ratio in 2000 decreased to 40,59%.
On this base we should assume that on the base of the 2000 figures a 10% decrease in the registered volume means a 20-25% fall in after-tax profits.

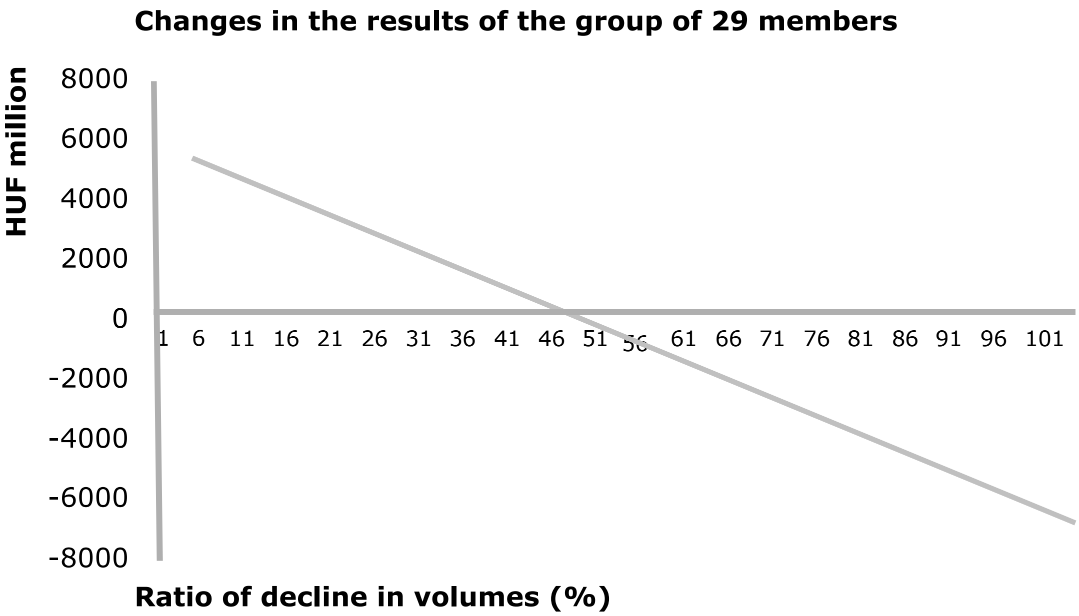
The return on capital figure worsened significantly, since most companies raised capital, but showed declining profits: in 18 cases the ROC worsened, but in the other 11 it was able to grow. The situation is worse in the case of those 21 companies that raised capital: only 9 of them could improve their ROC. Nevertheless, the group's average ROC ratio, after a fall from 14,01% to 12,19% was still slightly above that of the comparable risk-free rate.

Expected changes in the profit and income results in 2001

On implementing the 2001 forecast we adopt the following assumptions:

1. Stock volume diminishes by 50% on a yearly level
2. Transaction fees payable to the BSE also falls by 50%
3. The general level of commissions does not change in comparison to 2000 (regarded as a rather optimistic expectation, taking the expected sharpening of competitiveness into account)
4. That a 5 % proportion of OTC incomes (derivatives and foreign markets) grows by 50%
5. The general bonus ratio of 5% of the commission paid to traders remains unchanged
6. The risk free rate does not change significantly
7. Costs remain unaffected due to cost saving programs that counter-balance the increase in the price of services
8. Own capital remains unchanged in the case of most brokerage companies
9. The ratio of industry-related, maximised administrative fees (State Securities Commission etc) does not vary
10. Other factors influencing the balance sheet remain unchanged.

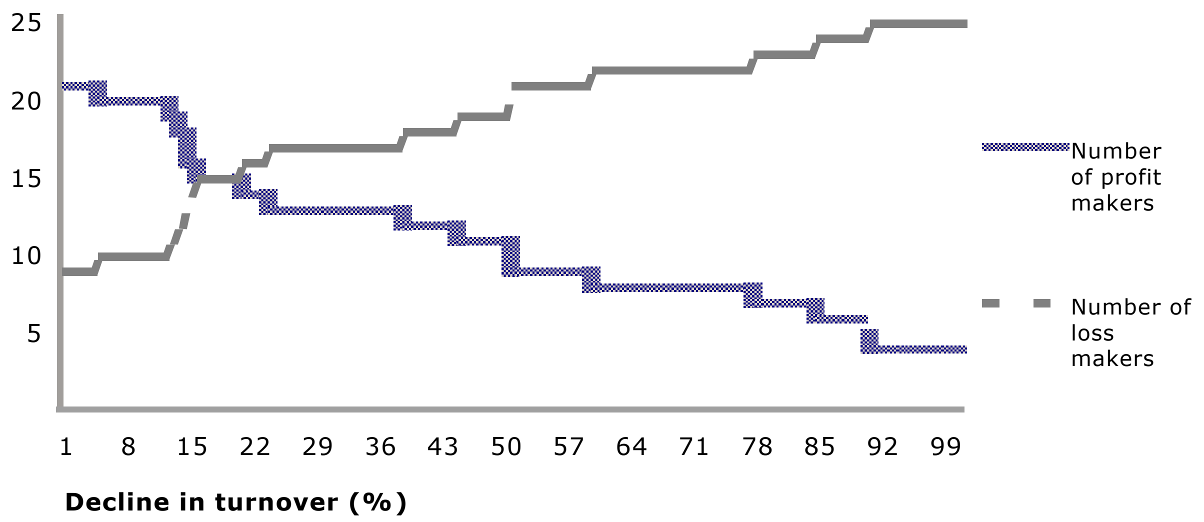
Taking these assumptions into account, the business forecast we derive is upsetting: the profitability of the sector vanishes. By the end of 2001 the aggregated loss of the 29 brokerages amounts to HUF 200 million although the total own capital reaches HUF 45 billion. In our forecast, aggregated revenues from commissions diminishes by about HUF 6,5 billion, which, however, is to be reduced by a savings of HUF 430 million due to the decrease of transaction costs payable to the stock exchange; in addition, the bonus to be paid to the traders falls by HUF 326 million - that means that the total result of the group will drop by HUF 5,75 billion compared to the 2000 figure.



As a result of this process, a dramatic change in the number of profitable exchange members is to be expected. While in 2000 there were 20 firms with positive balance sheet results at the end of the year, this year this number may drop even to eight, as there are 21 firms that must realise losses. In this case the top ten firms are negatively affected as well, as only three of them realise profits. Because seven houses end their third consecutive financial year with negative results, most probably the majority of them will cease operation. Including those broker-dealer companies that are not included among the 29 in question, very probably about ten companies are going to give up. For good measure we mention that the general fees payable to the State Securities Commission and to other central supervisory and investor-protective bodies do not decrease in line with the fall in the turnover, so the costs per unit will increase as well. We assume that even a 15-20% further drop in volume accelerates the speed of closings: at a 15% decrease there are more loss makers than profitable ones, moreover, the fatal loss of the above-mentioned seven houses is inevitable.

- And now we already know exactly that the first quarter of 2001 brought a 60% decrease in comparison to 2000.

The development of profit-making and loss-making companies in 2001



Expected changes in the profitability of the BSE

Not really in line with its definitive steps to widen the publicly available information about members, neither with the frequently declared aim of becoming a shareholding company, the BSE does not fondle the public with too much information about its own maintenance. Yearly reports do contain the audited balance sheet and the profit statement, but the exchange does not publish its preliminary balance sheet, nor its business plans. Therefore, for the year 2000 the currently available numbers were heard only in a press conference held after the general meeting; not even WEB-surfers can find out more. Profit forecast and the strategy is summed up in a one-page-long document. Members, as owners of course, had to receive these figures, therefore this kind of mystery-making does not make much sense. However, during the research for this paper, we could not obtain official information regarding the 2001 action plan and business goals.

The stock exchange showed an improving profitability in the past three years: while in 1998 its profit amounted to HUF 3,3 million, in 1999 it reached HUF 236,6 million, and in 2000 it amounts, as published not long ago, to HUF 278,7 million.
What can we forecast for this year? Counting on inflationary effects and high amortisation costs of the MMTS I and II, the business plan will contain a more modest result in comparison to the previous years, and most optimistically they can count on stagnating volumes and therefore on a HUF 1-1,2 billion revenue from stock exchange operations. The reality will differ from it taking the estimated fall of at least 50% into account. The BSE will naturally take efforts to counter-balance this gap in incomes by extraordinary cost savings as outlined in the beginning of Chapter 3. Even if introducing the most severe savings plan, no more than HUF 100-120 million can be saved, so the loss still amounts to about 10% of the own capital, to about HUF 200 – 300 million. And this at a time when the BSE wants to transform itself into a public company..

As shown above, this year the worsening of the balance sheet results of members is accelerating to a never-before-seen extent, and the BSE itself is going to end up in losses for the first time. The vanishing profitability of the sector causes further mergers but more often the ceasing of operation. The more positive scenario, a take-over of the business activity of a broker house by another one, causes a further loss in the total volume, even if all former clients keep on trading, because the principal trading of the original company and its owners ceases. If any transaction or commission fee is raised as a compensation for the shortfall in business, that can result in a further decline in volumes. Realising this risk, brokers probably will not raise their fees on the short run.
Solution? Raise the volumes! How, if the BSE – partly because of its own problems, partly due to macro-factors – has failed to introduce the adequate number of new products and services?
Well, brokers will find their way by finding new markets and products – elsewhere.

Why does the capital keep on looking for new territories?
In search of new possibilities to get new money-making machines to work, or to invest long-term capital in maybe somewhat exotic, but secure and lucrative instruments, or simply to use the local liquidity. Well, it is hard to find abundant opportunities for either of these reasons on the Hungarian listed market. In our belief the lack of new issues and the negative changes in the existing free floats are the primary reasons for the united drawback of the foreign capital. Fortunately, Hungarian capital still prefers the local market, not only because it still cannot move so freely, but of course because for the domestic participants it is the primary place to invest.

The only immediate action the BSE can take is to take the leading initiative to seek for the way out. The only available, realistic solution is a kind of alliance, which enables the BSE to let the members of the foreign partner get access to the - for them still interesting! – market, in exchange for the same service for its own members. This step would raise the number of both market participants and available products, assuring a higher standard of services to the investing society. Calculating with relatively minimal installation costs and time, the BSE could soon recover from the current recession.

3. REGIONAL OUTLOOK

This is the shortest chapter, in which two more points of view that we consider to be relevant to our investigation, are introduced (as the fifth approach): a more general but decisive international tendency, and a good example

1. The new approach in asset allocation

To crown all local problems, a world-wide tendency affects the Hungarian stock market really negatively: whereas some 3-4 years ago regional asset allocation strategies dominated the large portfolio managers' attitude, especially when they focused on emerging markets, nowadays the sectoral approach enjoys priority above all. This change is due to the globalisation process and to the decreasing differences between an East-European economy and a West-European one, ever since the geopolitical borders have been disappearing. But this means that single companies and their place in their sector are regarded instead of their country, which means that only internationally competitive blue chips are paid particular attention to. Given the size of the economy, there are no more than 2-4 such companies in Hungary - instead of the formerly popular 8-12 papers which were regularly traded by the regionally-minded funds and traders.

(The absorption of the regional approach is shown for example by the failure of the CECE initiative of the former ÖTOB.) A 4-5 years ago, a locally initiated regional marketplace would have been a good idea.[4]

The fashionable tendency in asset allocation means that even in Hungary, where instant coffee almost tastes like espresso[5], it is no longer enough to be a bigCap-bluechip. A public company must measure itself against the international sector, to the bluechips thereof. Instead of being comparatively good, now it is about being absolutely good. Hopefully, the well-performing macroeconomy and a smart government will enable this challenge to be met, which belongs already to the second, and probably even harder, chapter of the transition since the iron curtain collapsed.

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[4] Here we would like to draw the attention in advance to the reason why we do not advise the BSE to define the reform strategy in the establishment of a regional alliance: we have missed that train already.

[5] This time we would like to refer to Mr Wieslaw Rozlucki, President of the Warsaw Stock Exchange, who, in a conference, compared the East-European markets to instant coffee: it must be ready in a second but must taste like an espresso. He said that Western investors do not regard East-European markets as emerging markets – those Latin or Mediterrian emerging markets have been emerging for long decades – but East-European exchanges, as soon as they are launched, cannot make a mistake, oh! from the beginning on they must do it perfectly– just in the same way as a good espresso tastes.

2. Case study: Snow-white and the Seven Dwarfs

One major surprise of the beginning of this year was the Helsinki announcement made by the Helsinki Exchanges Group, about buying the Tallinn Stock Exchange. The aim is to build a well functioning marketplace in Estonia. The TSE with its 1,8 billion euro market cap looks like a good investment to the HEX of 270 billion euro. With this step, Tallinn ends talks with OM Gruppen that is making every effort to bring together all Nordic exchanges under the auspices of the OM Exchanges. The Riga exchange in Latvia reacted with a similar intent to start negotiations with Helsinki. As published on Reuters, following these announcements, Lithuania quickly initiated talks as well.

Could that be an example to follow? Why have the other Baltic exchanges not burst out in jealousy instead, which is usually the first reaction of the BSE when she gets a chance to move in a direction like this?
Why did Helsinki not feel ashamed to change its strategy overnight? (Just days before the announcement they had said that they would prefer alliances of an even weaker form than the Nordex initiative – and then they choose the direct buy-in). OM said diplomatically, since it owns 16% stake in HEX, that this event increases OM's shareholders value – instead of crying shame upon HEX for making the TSE cancel the Nordex talks.
In addition, why does it seem so natural that the authorities (e.g. the Lithuanian Ministry of Finance) rushed to express their contribution to the deal? 'The finance ministry welcomes any moves of the Vilnius bourse's integration into regional alliances aimed at local capital market growth and will carefully examine these proposals' (Source: Reuters)
A year earlier, the Minister President of Estonia announced that it will apply in Brussels for examining the possibility of introducing the euro even before Tallinn enters ERM2. Yes, indeed, a country and economy of its size, why does it need an own currency – and a separate national exchange - at all?

During the same time in Hungary, the London Stock Exchange offered to the BSE a joint marketing campaign targeting Hungarian issuers. The BSE felt hurt and refused it, saying it does not need it.

Why does she think that she has plenty of time and unlimited number of princes with infinite patience?

4. Integration possibilities for the BSE

Quiz
A stock exchange somewhere in Europe needs to stop and reverse the process of declining volumes and revenues. And supporting, profit making members.
Its members need fresh blood: new products and, what they would not have believed before, new market participants to create real liquidity.
They all need real tax incentives and market-minded regulators.
Which is the winning strategy ?

1. The exchange keeps on doing it her way, postponing the question of an alliance as long as possible.
2. The exchange initiates a regional alliance to offer a harmonised trading place suitable and accessible also for the biggest investors.
3. Since some other exchanges have successfully solved this problem by outsourcing the system of a strong partner, the exchange examines this possibility.
4. The exchange joins an existing and well working alliance established by a more developed exchange.

1. Going on the way of independence as long as possible

As outlined in the very beginning, the beautiful lady will not get younger and more attractive. In light of the facts, the BSE is slowly becoming unimportant, and the sticking to this strategy – since among the possibilities listed above this is the closest to the current situation – well, this behaviour would just result in further losses.
An article appeared in the Financial Times made the management declare that, yes, indeed, the BSE intends to ally, but at an undefined later point in time. As it appeared in the Hungarian press word-for-word, the BSE wished to ally or to merge only with the 'winner-to-be' system. How does she mean it? After the European Stock Exchanges Tournament, when the winning system's name will appear on the scoreboard, a gold locket will hang on his neck, then, the day after they will give him a call? Who or what is going to be 'the winner'? If, after a long period of mergers and developments, the pan-European exchange will rely upon a number of systems that communicate with each other, then whom will she call?
In addition, the BSE says that it is worth waiting until Hungary joins the European Union, because its goodwill will be a lot higher, so she will receive better offers. It sounds good, but makes no sense. Rather the opposite is true: a strong, internationally allied exchange rushes the EU to welcome Hungary as soon as possible. Therefore this argument is good for nothing else but finding out just one more excuse.

Anyway, after a long period without an official strategy, the General Meeting of the BSE accepted a document, but it never came to see daylight, just about a one-page-long essence of it. (What else is a strategy good for, if not even the main goals and tools are public? During the research, we tried several times to get the strategy from the BSE – we were repeatedly told that it is confidential) How else would the potential international institutional investors find out where their investments would go to, if not even the targeted future of the stock market as such is clear?

We believe that the desire of getting on independently is a qualified optimism, and brings even on the very short run negative results. The decline in the number of exchange members will not halt in 2001, which will definitely not serve the growth in volumes. The governmental exchange supporting package of measures will not have a remarkable impact until the end of this year and even in 2002 it is questionable. The repeated and emphatic assertion of self-reliance just brings the BSE closer and closer to isolation from the rapidly changing world of capital, which, in line with the BSE's shrinking size, will motivate neither new issuers nor investors. So the currently strange sounding foreign listing will soon be a realistic alternative for the Hungarian undertakings. (That FT article cited the holder of the majority stake in NABI, who mentioned that as well. Although NABI does not belong to the bigCaps, it does belong to the three BUX papers that could raise the free float significantly. However, after the scandal, the blue chip issuers refuted their intention to go abroad.)

To prove that the current strategy is the feasible one, we expect that the BSE will soon work out an action plan to improve its results, containing probably the following topics and reforms.

<u>In-house reforms</u>

The BSE will perfect its inner rules and systems to make it more attractive. To create a new market (T-market) is a good idea, but a further ease in the basic conditions to listing will not solve the problems. Nevertheless, it is the minimum an exchange must try, possibly taking the consequences of similar experiments into account. (The similar attempt of the Prague exchange resulted in a stillborn.) Another possibility is to increase the number of foreign listings, including both well-known giants but also some east-European stocks. But since any domestic brokerage house can have direct access to the domestic market of these particular papers, where liquidity diminishes the spread to its minimum, it is questionable whether it would be worth making volumes in Budapest where the spread is still headed with the local transaction costs and with the arbitrage marge.

<u>General decrease of costs and increase in fees</u>

First of all in terms of personal wages and related costs, perhaps a 20% or more decrease in the number of people is achievable – a more severe decrease is not possible due to the operational and partly to the developing needs of the MMTS system. But even the strictest measures would not compensate for the loss in the transaction fees, and in 2002 very probably all savings will not be enough to counter-balance the diminishing revenues.

Then the BSE will have to raise its transaction fees, which will result in a strong conflict with members because the BSE will not be accompanied by better services, so it is doubtful whether the membership will let it happen. Anyway, from the marketing point of view it would occur at an unfortunate point of time; instead, they should announce a long fee holiday.

<u>Remote membership program</u>

When trying to lure more participants onto the market through a remote membership program, the BSE either takes its own system to the remote members or offers its own products through the new remote member's own system. The first scenario is a real, well working strategy - elsewhere. But because it is the MMTS that the BSE will want to offer, that is for the target group a too huge software to run in-house, plus the BSE has no experience to operate the system from a long distance – this would require not negligible costs as well. (Not to mention the very probably arising disputes between the BSE and the supplier of the MMTS.)

Many of the current members with significant foreign clientele would protest against this strategy, since K2, the open interface version of the MMTS is launched in the first half of 2001, so many of the target group members can have access to the system if their broker provides a terminal for them (leaving the nice commissions with the broker instead of becoming direct market participants). In addition, since the Hungarian forced liquidation rules are very strong, foreign clients like using the Hungarian house as a borrower, which would not be possible for them when transacting directly, therefore they would prefer K2 at least for the current volumes.
The second version, that the BSE introduces its products into the current trading system of their exchange, requires technically a superb interface with the MMTS to be developed at high costs, and legally, the official launching procedures at probably more marketplaces. This all would cost a lot more money and time than the BSE has.

<u>Local alliance</u>
According to the press, the possible and almost-planned fusion of the stock exchange with the commodity exchange would get an impulse as well, since the Ministry of Economic Affairs seems to support it. Since it is a logical step, this would result in a more effective maintenance according to the economies of scale. In the short run the turnover will not be higher since the new members have long been trading through the current members of the BSE. But the energy that has been used so far for fighting, can be united under the auspices of product development.

<u>Further chances in politics</u>
Since the next elections are due in 2002, it is unlikely that apart from the actual stock market package other measures would be effected.

To cut this long story short, we believe that even if all these and maybe even more measures take place, this strategy is by far not adequate to repair the volume charts. Nevertheless, since the situation has been seriously worsening already in the first quarter of 2001 (and the first quarters are traditionally stronger than the second and third), the in-house and cost-decreasing measures will have to be effected immediately, even if the BSE chooses another way to go.

And would not the own members turn ’against’ the BSE, if these sad declining tendencies continue? If we believe that capital is always looking for lucrative places, even their Hungarian clients will surely look further out in search for exciting markets. A special interest can be added to this tendency: the transformation of the BSE into a public shareholding company. (The BSE is a sui generis non-profit company as defined in the 1990 Securities Act) As this step is part of the official strategy, we want to underline that the separation of ownership and trading rights can lead to a situation when the brokerages do not even feel motivated anymore to choose this exchange as the marketplace.

We fear that this course of events will speed up even by 2002, resulting in a huge image – and operational loss. The merge with the BCE will mean some advantages, but the efforts will cost more energy in the short run than the benefits arising from it. All in all, the continuation with this strategy will involve the exchange in a much worse situation from where the inevitable final conclusion with an alliance will be a lot harder.

2. The BSE participates in a regional alliance

This idea is not a new one, hence the Budapest, Bratislava, Prague, Ljubljana and Warsaw exchanges have been keeping in close touch, especially since the idea of Mr. Jozsef Rotyis, a former CEO, has become real and the CESI Index was launched. The Central European Stock Index comprises the five marketplaces, and so does the Index Committee the personnel of the five exchanges.

Many of the members of the BSE, a remarkable number of members of the Hungarian Parliament, but also Mr. Mihály Varga, the Minister of Finance, supports the idea of a close strategic partnership with Vienna and Bratislava, but as he said, it is worth thinking of the Prague and Warsaw markets as well. The latter initiated a collaboration with the BSE already in 2000, but until now, no significant steps have been taken in this direction.

Provided that the establishment of a regional alliance right before joining the EU could be fruitful, then it would be worth working hard on it, and as a first step, including the Warsaw and the Prague exchanges. Although the strategy - united we stand divided we fall – currently is less important to the Polish market, since their turnover has not been wounded so much, and their new trading system was launched only half a year ago- still, they were the first to take a step in this direction when they initiated a ‘closer co-operation’, which was not really welcome in Budapest. We believe that a successful regional alliance could have been the engine of the EU joining process - even if right after the entry, the regional alliance as such would merge with an even bigger one. However, while a couple of years earlier, from the point of view of attracting foreign investors, such an improvement could have been a trump, now the situation is really different. Since the Russian crisis the asset allocation preferences have been dominated by industrial sector much more than by region, and the whole globalisation strengthens this approach, so a regional alliance must offer more than a simple harmonisation of trading and settlement rules. We shall not forget the example of the ÖTOB-initiative: the Cece-index, which targeted the regional investors, could not survive, despite the good construction, modern marketplace, safe clearing, competitive costs and a very good campaign.

An effective united product development and procedure innovation, backed by cost and tax harmonisation could perhaps make the current separate marketplaces more attractive. Then the other, smaller exchanges in the region could be included as well, taking the Helsinki - Tallinn deal as example. When listing up the steps to be taken, we have to think of the following factors.

If the regional partnership allows shares and derivative contracts to be cross-listed, the basic problem will not be solved, since on one hand this would not mean a real-time system linkage, and on the other hand the local product would probably reserve its liquidity locally. But at least it would hopefully prevent regulators, the exchanges and the clearing houses from inventing a market-interfering fee, tax or measure, as they could loose the market overnight.

The establishment of technical communication between the two or more exchanges would involve a lot of time and costs, so we think that it is too late for that. The marketing and communication expenses of a regional partnership/alliance are really high, and they do not automatically ensure the awakening of interest (as it was seen in the case of Vienna and in the case of the Newex initiative[6])

Hence we believe that the aim is to get into the very blood circulation of the European capital markets, now, in 2001, we have to say that the remaining time / applicable energy ratio is probably not enough to go fully for the regional alliance, because then the remaining resources that the BSE could use to work on a European alliance, would not be adequate.. Too little, too late.

(Danger! Does not this mean that we could slowly be too late for an optimised association with Europe as well?)

Nevertheless, we would advise that serious research be conducted to figure out the cohesive factors of a possible co-operation, finding out the applicable catalysing arrangements to take, taking economies of scale into account. It is still probable that some large investors would return because they would find a more uniform region much more useful than the current individual markets – which is also what also Mr. Lajos Bokros suggests.

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[6] The BSE was wrong to feel relieved by the Newex fiasco: as a matter of fact, the two marketplaces show different symptoms of the same sickness: whereas on the Newex, trading did not even commence in spite of the technical advantages, (contrary to the original idea, they could not list new Hungarian or other regional papers just the already listed shares of the domestic markets) the BSE is declining now after a long expansive period. What is common is that the lack of new products and participants are bringing them down. We fear that if it once comes to talks about a possible alliance with Newex (or with Eurex), just because of simple jealousy the BSE would not welcome the opportunity.

3. The BSE uses the system of another exchange in the form of an outsourcing

Outsourcing as a marketing method is a new tool, meaning that the owner of the system places its system at the customer's disposal, usually free of charge but in exchange for the participation in future profits, and it is only the installation costs that burden the client. As this is a realistic method in taking the first step towards a market alliance, requiring basic decisions but minimum concrete investment, this is what we want to suggest.[7]

Choosing this strategy, the BSE, in exchange for a fraction of the current transaction fees, receives a working trading system from another exchange, and becomes part of the big system. A loose partnership would be established, without having to oblige itself for a merger or for any other final decision. The market of the offering exchange will instantly be accessible for the members of the BSE. Since the details of the deal always depend on the current and real conditions, we were not able to get official prices, but we suspect that even on the middle run transaction costs could decrease. Taking the initial installation period into account, still, very probably, a further rise in fees would be evitable.[8]

This kind of loose integration determines several painful decisions to start with, such as exchanging the existing MMTS system for another one. (This suggestion in itself is probably enough to jar the nerves of the management of the BSE, since the more than HUF 2,5 billion project has just been finished. But to build a fully communicating interface to the system of another exchange, would cost another fortune.) In the possession of a concrete offer it would be easy to calculate its costs; but we assume that a concrete feasibility study would show the same result, since only the maintenance of the current system requires remarkable human resources. Additionally, the future development needs cost further material resources, so instead, it would be really worth burdening somebody else with these tasks in a manner which ensures the BSE full access to the developments The then required local staff would not exceed 30-35 people – even in the case of the merger with the BCE - instead of the current 80.

From the marketing point of view, such a strategy sounds at least as good as the establishment of a regional alliance. What would this mean to the market participants?

<u>For the exchange</u>

The exchange would not have to be continuously busy with the maintenance and development of its system. Instead, it could focus on the regulatory harmonisation with the partner exchange, whereas regarding product and market development, it would enjoy full independence to determine trading times, sections, applied algorithms or the calculation of the listed indices. The partnership also serves as a freely chosen example, when a question regarding any kind of development arises. In this case the BSE would not have to make efforts to trade with foreign shares on its own market; such an alliance would ensure the possibility of cross listings. In addition, a step like this does not yet close out the possibility of a Czech – Polish co-operation and a realistic collaboration would remain feasible as well.

The question of the remote membership could be solved quickly and in a cost-effective manner. International brokerage houses would be able to get the licences and the terminal without huge extra investments, if they trade in that particular system already. Regarding the

[7] We of course do not intend to write a full feasibility study in the framework of this paper, so we must neclect many details when suggesting this strategy.

[8] The facts of the beginning of this year motivated the Board of the BSE already during its 8th January meeting to review the business forecast, but referring to the undefined 'high implementation and technical costs of an integration', it refused the possibility of an alliance without commenting on it in detail.

membership, we believe that much more remote members will come through this channel than if MMTS were marketed to them by itself. We have to count on a tension between the bourse and its members, but it will surely lessen when the members see the profit and the regained market position resulting from the extra income deriving from the increased activity, both in the domestic and in the newly accessible foreign market. After all, the impact of this tendency is the probable slow down in the decrease of the number of members.
In addition, it is a question of a well-timed deal, that the members of the BSE could possibly enjoy a certain refund from the transaction fees arising from the traded volumes in foreign securities – as the example of the so-called designated market makers show on many market places.

Of course, real problems can arise when implementing a new system. (E.g. the current MMTS handles the primary auctions for government papers. We have not examined whether any possible system would be able to take over this task, but if not, it could be left on for the MMTS even if a new system was implemented) But since the potential system is a really up-to-date one, serving a more developed market, the modifications in the current trading and settlement rules required by the new system would just accelerate the integration of the Hungarian capital market into Europe. This should be kept in sight as much as possible instead of getting lost in the details when a difficulty arises.

We suggest that even if all suppositions are regarded fictive, and the turnover will not pick up due to the outsourcing, the definite savings on the side of the maintenance make this change already worthwhile. The procedure of an outsourcing is quick. After contracting, we can calculate with 6 months to get prepared for the launch (as the Irish example shows, when Dublin decided to implement the Xetra system), which is a foreseeable period of time for the currently hesitating brokers – to stay on the market or not to stay - as well.

<u>For the domestic market participants</u>

Regarding the Hungarian investors, they certainly do not mind if they get easy access to other markets. Additionally, the possible inflow of other market participants would serve the growth of liquidity, which, provided that no extra costs or higher commissions are charged, would save extra points in the spreads.

<u>For the listed companies</u>

For the issuers, outsourcing means a long term but guaranteed appearance on the marketplace of the European Union, a good channel for new capital from a much bigger market.

<u>For the foreign investors</u>

Such a partnership could draw their attention to the Budapest market, even if they have not traded in Hungarian securities, or just in London. (The Tallinn example has proven this assumption already. The breaking news alone made more investors look around there.)

<u>For high politics</u>

Finally, the government would probably support this strategy, since this step can be made part of the integration policy.

We want to highlight once again, that outsourcing does not mean a forever obligation; it can be regarded as a good and useful, low-risk trial period before the BSE decides for the most suitable integration target. It is similar to a good hedging strategy with a call option: participation on the upside, with limited risk downside. Limited, since the system-to-be must be a good one. And, an optional *combination* with the BCE and/or with other exchanges is not excluded.

4. The BSE allies now with a developed exchange, or one of them buys in/out

This strategy is the most dramatic among the listed ones. It could be realised in a two-step process. As the first step, a loose agreement would be concluded, meaning that all major decisions would be reconciled, the structures would be united, communications harmonised and the representation on all events concerning the Hungarian market would be shared. In the second phase, the more developed exchange would either buy out the shares of the BSE or pay for them with its own shares. (In this context the transition into a shareholding company is desirable, but it could take place no sooner than 2002, after the introduction of the new securities market regulation.) The examples for this are the Norwegian and Finnish exchanges.

This solution would include probably all steps that were mentioned in the framework of outsourcing. A new system would be implemented, by which significant costs could be saved: only representative personnel, ca. 20-25 employees would work locally, since market and product development would go under the direction and control of the partner exchange. All other advantages of an outsourcing are valid for this strategy as well.

However, the realisation of a full alliance strategy entails a series of difficulties. First of all, being so much different from the current standpoint of the BSE, it is highly doubtful whether the members would support it or not. The legal framework and background would need such an all-out modification that it would take a long time to prepare. It is unlikely that the government could agree with that at once, since the strong concerns regarding sustaining of the national affinity of the local exchange would advance. Further mergers or partnerships could be developed only if the partner exchange fully agrees with the strategy, only when the potential partners are seen as future clients. In addition, if the possible exchanges choose another developed exchange to co-operate with, then the original initiatives would get isolated. On the other hand, an alliance of the BSE would positively accelerate the aspirations of a similar kind among the regional exchanges.

Full alliance would mean a Big Bang-type of change: the BSE would have to give up its independence, and thus soon disappearing from the list of world's exchanges. In spite of the fact that a full integration would ensure all the positive effects of an outsourcing strategy – besides the realistic possibility of a backdown - the occurring legal, political and strategic problems are of such a character that there is practically no chance of realising this strategy in the short run. However, taking into account the upcoming EU membership and the current changes on the Western market, this grade of integration will certainly be on the agenda – maybe as early as 3-5 years from now.

History teaches that whenever it comes to a major change, decision-makers must decide between a 'Big Bang type of overhaul' and a more gradual change - if they want the change at all. Strategy No.3 means a gradual, careful but still radical step. But first of all, the very urgent task for the BSE is to comprehend its own situation and to take it on publicly yet in time. With this paper, we hope to have done something for it.

Engagement is a good trial period before marriage

This chapter, solution No.3 in light of the summary of the first chapter, contains the basic idea behind the writing of this paper. To develop this intuition into a concrete suggestion, we have been searching, asking, listening and calculating – and finally, writing a lot. Nevertheless, it is neither our purpose nor our task, to define exactly, taking all details into account, the final version of the action plan. What we propose here is a broad outline, a general overview of the strategy that we recommend, and not a detailed, tactical plan of action. However, we can borrow from the experiences of human behaviour, in saying that engagement is a good trial period before marriage; outsourcing is a good introduction to the change that full integration demands. Of course, the solution will remain a matter for the reasonable determination of the Budapest Stock Exchange. So we remain

Sincerely yours, BSE

Nora Szeles, Gabor Marosi

Appendix

1. Current status of the financial regulations in light of the Eurozone

Directives	Status of harmonisation
Annual and Consolidated Accounts	🏋
Capital Adequacy	🏋
Consolidated Supervision	🏋
Information from Public Companies	🏋
Insider Trading	🏋
Large Exposures	🏋
Own Funds	🏋
Cross-Border Credit Transfers	📎
Deposit Guarantee Schemes	📎
First and Second Banking	📎
Investment Services	📎
Investor Compensation Schemes	📎
Listing Particulars	📎
Money Laundering	📎
Post BCCI	📎
Prospectus	📎
Solvency Ratio	📎
UCITS	📎
Contractual Netting	🍽
Settlement Finality	🍽

🏋: fully harmonised
📎: partly harmonised
🍽: on the (time)table

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3. About the authors

Gabor Marosi (born in 1974)
Gabor is a director at Takarék Bróker Ltd, a major Hungarian broker that is an affiliate of Takarékbank, which is owned by DG Bank. He joined Takarék Bróker three years ago to establish the derivatives business, and soon after that the company became market maker for the BUX contract. Since then, the Takarék Bróker is among the first four most active companies in both listed and OTC derivatives. Since September 1994, even before graduating from the Budapest Business School, he was hired by Postabank Securities, where he got involved with derivatives. He then joined ING Baring Budapest Securities to launch its derivatives trading desk.
Gabor was elected already in 1996 as the best futures broker, which nomination was crowned in 2000 with the election of Takarék Bróker as the best Hungarian derivatives house. Gabor has been a member of the BUX Index Committee of the BSE since 1997 and since 1998, he has participated in the Trading Committee as well.

Nora Szeles (born in 1970)
As a former head of product and market development at the BSE, Nora has been involved with the BSE’s derivatives market development since 1993. After the launch of the futures market, Nora became a speaker at a number of domestic and international conferences, and published several articles about derivatives and market development. Since 1995 she has participated in the different stock-and capital market working groups. Nora joined Concorde Securities in 1997 to make the house active in derivatives. (Concorde is currently No. 1 in listed derivatives volume.)
Nora gave birth to two children in the past two years, but has kept on lecturing with pleasure at the International Training Centre for Bankers and at the Central European Fund for Brokers’ Education. In addition, she occasionally works as a financial business consultant.