

THE POSITION, IMPORTANCE AND ROLES OF THE SLOVAK ASSOCIATION OF SECURITIES DEALERS

Ing. Róbert Kopál

The Slovak Association of Securities Dealers (hereinafter only the "Association") was established in 1994 by 26 stockbrokers. Since its establishment it has operated as a voluntary interest grouping of legal entities operating on the basis of the respective legislation as stockbrokers. Despite the fact that membership of the Association is not obligatory under the Law, members of the Association are almost all the important stockbrokers operating in Slovakia. The overall number of members of the Association changes yearly. The highest number of Association members was in 1998 when there were 50 members. At present the Association has 38 members, while there is expected in the near future a slight decrease in the number of Association members, with a subsequent long-term stabilisation in the membership base.

The expected decrease is the result of the ongoing process of re-licensing stockbrokers. The need for re-licensing all stockbrokers results from the new Act on securities and investments services no. 566/2001 Z. z., which was passed at the end of 2001 and came into effect on 1st January, 2002. This Act, which is the basic Act in the field of the capital market, changes in a principal manner the practice to date in particular in the activity of stockbrokers. Together with an increase in demand for their activity, either in the form of the submission of a number of declarations and statements to the Financial Market Authority together with the monitoring and adherence to capital adequacy ratios there is introduced into practice also a completely new element of protection for clients of stockbrokers, this through an investment guarantee fund. The Investment Guarantee Fund, which is similar to the Deposit Protection Fund in the case of banks, is in essence a secondary element of protection for the client of a stockbroker. The primary element comprising the basic pillar of protection is the duty of the stockbroker to administer its own resources and assets separately and in a segregated manner from its clients' assets. The purpose of the guarantee fund is to bring about increased protection for clients of stockbrokers for the case that the assets of a stockbroker's clients become for various reasons unavailable. The Act defines what is considered as client assets, as well as their unavailability, and the amount and manner of their compensation.

Position

Besides the Bratislava Stock Exchange, a. s., and where naturally the main function is different, the Slovak Association of Securities Dealers is the only organisation representing stockbrokers' interests in the Slovak Republic. Over a period of almost eight years' operation it has built for itself the standing of a recognised and accepted organisation with influence on the new legislation and regulation in the capital market. The Association thanks to its standing and reputation as an independent professional institution in the field of the capital market also exercises an influence over public opinion. In the framework of its activities it co-operates with significant domestic and foreign institutions for example the Financial Market Authority, Ministry of Finance of the SR, partner associations at home (Association of Asset Management Companies, Association of Banks, Slovak Association of Insurance Companies) and abroad (Association of Stockbrokers and Dealers in the Czech Republic), as well as with many others (University of Economics in Bratislava, University of Matej Bel in Banská Bystrica, the East West Management Institute, the Slovak Rating Agency etc).

Significance

The significance of the Association can be assessed from two aspects. The first is naturally the significance for Association members themselves. This can be best assessed by means of its fulfilling the basic requirements, which led the Association's members to establish it. The main motive for establishing the Association was the advancement and protection of the common interests of the Association's members together with co-ordination and regulation of their activity. Through a thorough and objective assessment of more than seven years' operation of the Association it can be said that this main aim has in practice been partially fulfilled. Partially therefore, since for the time being in asserting and protecting the common interests of the Association's members a large amount of work has been performed and significant results and successes achieved, there however remain matters to be rec-



tified in the field of coordination and regulation of the Association members' activity.

For an objective assessment of the disproportion arisen between the activities of the Association in asserting and protecting the Association members' common interests and activities in the field of coordination and regulation of the activity of its members it is necessary to work from an overall view of the situation in the domestic capital market. It is generally known the fact that the domestic capital market still, despite its 10-year history, is fighting for its survival and place in the financial market. This is also the main reason why the Association has focused most of its activities and time on the real questions of asserting and protecting the common interests of its members with the aim of preserving and supporting development of the domestic capital market. It is in this field that it has fulfilled its role fully and continues to perform an indispensable role. This claim can be supported by various sources. From the aspect of stockbrokers one of the most significant pieces of evidence are regulations in the proposed system of contributions of securities organisations remitted to the Financial Market Authority, as well as the change achieved in the level of fees for licenses for stockbroker activities. There may also be mentioned the change achieved in the system of contributions from securities organisations to the Investment Guaranty Fund, as well as numerous other positive corrections in the field of fees for operations of the Financial Market Authority. Last but not least it is necessary to state the enormous and at least partially successful efforts surrounding the form of the new Act No. 566/2001 Z.z. on securities and investment services.

It is true that in particular the new Act on securities and investments services together with changes in the financing of the Financial Market Authority mean a significant burden for stockbrokers, not only in financial terms, and which without the involvement of the Association would be incomparably greater. It remains to be hoped that the battle for the Slovak capital market's existence will not go on a further 10 years and that the Association will be able to shift the focus of its efforts also to the field of coordination and regulation of its members activity. Although today it cannot be said that it does not devote itself to this field, to this there can be borne witness the issuing of various opinions and guidelines for its members, as well as the investigation of complaints concerning the breaching of a duty of an Association member, in particular the provisions of the Ethical Code of a member of the Stockbrokers' Association, for which the Association has a specially formed commission.

A second aspect is the significance of the Association for external subjects. These are in particular the Financial Market Authority, The SR Ministry of Finance, partner associations, the media and the wider professional and general public. Here also the Association has an indispensable position, in particular in the field of effective

communication, educational information, protection of clients and investors, partnership and co-operation.

Roles

From the aspect of the situation in the domestic capital market the Association in asserting the common interests of its members concentrates in particular on activities connected with the creation of suitable conditions for conducting business in the domestic financial and capital market.

The Association besides this:

- a) oversees the due execution of its members' activity, its high professional and ethical level,
- b) guides its members' activity in accordance with the legal code of the Slovak Republic and international standards applicable in this field,
- c) cooperates with the financial market supervisory authority and with organisers of the public stock market in the case of ensuring compliance with laws and other binding legal regulations from the side of its members,
- d) creates the bases for raising the education and professional level of the respective employees of its Association members,
- e) represents the interests of its members and asserts their justified requests in negotiations with state legislative and executive bodies, with organisers of the public stock market as well as with artificial legal entities performing the function of a central securities depository, with the Investment Guaranty Fund etc
- f) in out-of-court settlements of disputes between Association members themselves, or between Association members and third parties,
- g) informs the professional and general public on the possibilities of financial investment for legal entities and natural persons and provides basic information on the activities of its members,
- h) provides information and advisory services.

All the Association's tasks may in essence be categorised into three basic groups.

The first group comprises tasks resulting from the Association's efforts to represent and assert the interests of its members vis-à-vis state bodies and public administration authorities, as well as in respect of other subjects of the capital market. Among this group belong for example the activity of commenting on legislation under preparation concerning the capital market, for the preparation of its own legislative proposals, organising working meetings with representatives of the SR Ministry of Finance, the Financial Market Authority, the Bratislava Stock Exchange, the Securities Exchange, or other subjects in the capital market with the aim of seeking joint solutions to problems arising, as well as other tasks the aim of which is to represent and assert their interests of its members.

The second group of tasks comprises those which relate to the effort of the Association in the regulation of its

members' activity. Among its basic roles in this area is the guidance of its members' activity in accordance with the legal code of the Slovak Republic and international standards applicable in the field, investigation of reports concerning the violation of a duty by an Association member, in particular the provisions of the Ethical Code by an Association member.

Within the compass of the third group fall tasks relating to the aim of the Association to assist in the general development of the capital market in Slovakia. In connection to this there may be stated for example the international conference "The Capital Market in the Slovak Republic", organised each year by the Association in cooperation with the Bratislava Stock Exchange, various professional training sessions and seminars serving to increase the professional level of workers in the capital market, granting the prize "Pro Aperitione" to a company that is open in the form of providing information about itself to its shareholders as well as other investors, and cooperation of the Association with the Bratislava Stock Exchange in the proposal and realisation of a project for a dealers' market at the exchange with the aim of increasing liquidity on the securities market. A further role in the framework of this group is the publishing and highlighting of problems rela-

ting to the capital market's functioning in Slovakia with a proposal for resolving these problems.

Conclusion

The current process and stage stockbrokers are passing through will eventually mean a cleansing of the market and an increase in its transparency, leading finally to an increase in investor confidence, thus contributing to the development of the capital market in Slovakia. The level and speed of development will be proportional to the quality and speed of implementing pension reform in the Slovak Republic with a transition to a capitalization pillar, as well as the completion of privatisation and the transformation of the domestic economy to one functioning on clear market principles together with the stabilisation of the respective legislation.

The activities of the Slovak Association of Securities Dealers in future cannot be separated from the overall development of the situation in the Slovak capital market. Therefore also the progression in time and the importance given to the Association's individual tasks will in future be determined by the development of the domestic capital market.